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# BPO ON THE BRINK OF A NEW GENERATION: TECHNOLOGY TRANSFORMATION

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## Executive Summary

The old way of doing business process outsourcing (BPO) is fast running out of steam in today's maturing business environment. Half of today's BPO engagements are essentially reproducing the same processes for their clients that they were managing pre-engagement, merely at lower cost, through the use of labor arbitrage. While processes have been selectively improved at a function-point level, there has been minimal transformational impact for most buyers in improving these processes, or making investments in talent, technology tools or platforms that can generate meaningful new efficiencies or innovations.

## Achieving the "Technology Advantage"

***To what extent can technologies and platforms help fuel a BPO transformation and a new era of BPO value creation?*** Previous research has demonstrated that, in general, advanced technologies distinguish the best BPO relationships from the crowd.<sup>1</sup> However, with new technology architectures gaining traction and advances in analytics, automation, Cloud and mobility, the technology-enablement of processes is fast becoming the key to unlocking new value from BPO.

Effective technologies and architectures contribute to cost reductions and more efficient operations by streamlining the systems environment and reducing the number of systems involved, often standardizing the technology environment on a unified, centralized platform. In addition, many BPO buyers achieving better outcomes and performance are also using technology in their BPO relationships to provide effective monitoring of performance, greater visibility and transparency of operations, to incorporate automation into processes and help provide analytical insights. In addition, many BPO buyers leveraging technology effectively also find they are creating new sources of value through better ideas and initiatives.

This report provides a detailed examination of what that technology advantage is in BPO relationships.

## Beyond “Lift and Shift”

**Based on the experience of leading companies, one way that technology and platforms provide a BPO advantage is in capturing new kinds of value.** HfS believes that “standard” BPO cost reductions, gained purely through labor arbitrage, represent a primitive and unsustainable form of value capture that will eventually be commoditized if too little attention is paid to the more important dimension of improving fundamental business processes, enabled by talent and technology.

Our research shows that half of all BPO engagements today are still stuck in this “lift and shift” limbo. If there is to be a bright future for BPO, there clearly needs to be definitive and concerted action on behalf of both ambitious enterprise buyers and innovative service providers to arrest this stagnation and move beyond labor arbitrage.

HfS believes that innovation in BPO will be driven by the “triumvirate” of people, process and technology. Our previous report on the talent issues facing the outsourcing industry outlined the importance of developing an industry-informed, analytics-driven, consultative approach to service provision rather than a transactional/operational approach (see “[The Great Talent Paradox](#)”). This report focuses on the third critical factor in the people-process-technology innovation equation.

New HfS research is showing that many of those enterprises that once lauded their initial cost savings are now becoming frustrated that little progress is being made to fuel further efficiencies; service providers are failing to provide a sufficient level of talent, technology and analytics value in an alarming two-thirds of engagements. For many buyers, outsourcing is looking like a one-time deal—like buying an oil well and then running it dry—as opposed to making investments in the innovations that can drive continuous value creation.

## Key Findings

In this report we explore a number of current trends and look at what ambitious enterprises are doing to deploy technology tools and platforms—including analytics, automation, mobility, social collaboration and the Cloud—to improve their BPO performance and achieve strategic business outcomes. These insights are based on new research findings from a ground-breaking study, conducted by HfS Research during November and December 2013 with support from Accenture, which analyzed the views, experiences and dynamics of 773 BPO industry stakeholders: enterprise buyers, service providers and advisors.

### Some key findings include:

1. Two-thirds of current BPO engagements remain focused on cost reduction alone, with existing processes “lifted and shifted” from the client to low-cost offshore delivery centers. Yet half of today’s clients expect to undertake a wide-scale transformation of their business processes within the next two years through greater use of technology and higher level skills to capture new and more sustainable business outcomes.
2. A small group of buyers who have already taken the leap to a new generation of value with technology-enabled BPO are reaping much better results than those in earlier phases including: faster movement away from the “lift and shift” BPO model; greater optimization in higher value areas like analytical insight and

innovative capabilities; and more standardized processes and workflows in the Cloud that deliver improved cost, quality and organizational agility.

3. Buyers view analytics as the technology with the most critical importance and expect their BPO providers to not only deliver services, but to be sources of both descriptive and predictive insights that can impact their overall business outcomes. HfS believes that the push for early analytical insights provided today by automation-lite, labor-heavy analysis will be replaced by a more integrated analytics engine once broad transformational processing platforms specifically designed to exploit analytics become the norm.
4. Automation also was identified by buyers as a critical technology to make the move to value beyond cost. Automation promises reduced errors and enhanced compliance, improved job satisfaction (eliminating repetitive, tedious tasks), deeper analytical insights, and 24 x 7 “always-on” delivery.
5. Buyers are struggling to understand how to embrace the potential of Cloud with their current BPO engagements. Chief among their concerns is the perceived loss of control and security – something that must be addressed by the BPO community.
6. Although buyers are placing greater importance on mobility, it must be deployed in the context of an overall enterprise mobile-enablement strategy to yield the greatest value. Piecemeal process-by-process approaches will only increase service fragmentation.
7. HfS believes that buyers will likely not see the full value of social media until much more sophisticated technology-enabled BPO platforms are in place that embed social as an essential element of the service rather than a bolt-on to older processes. Social has the potential to create new value through harvesting ideas and innovations; managing customer engagement more effectively; understanding and responding to feedback from the market; and enabling greater collaboration between the enterprise and service provider teams.

Given these and other findings from the research, it is essential for BPO buyers to assess their provider’s capabilities and experience with these technologies, particularly analytics. In several technology areas such as Cloud and social media, buyers have yet to see significant impact on their BPO engagements. Even mobility, while generating strong general support, has yet to see a significant number of deployments in a BPO context.

Finally, we argue that both buyers and service providers need to “up” their game if they want to capture more BPO value through technology. The opportunities are there. Practical innovators have an opportunity to set themselves apart from the crowd.

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# Part I: Advancing along the Generations of BPO Maturity

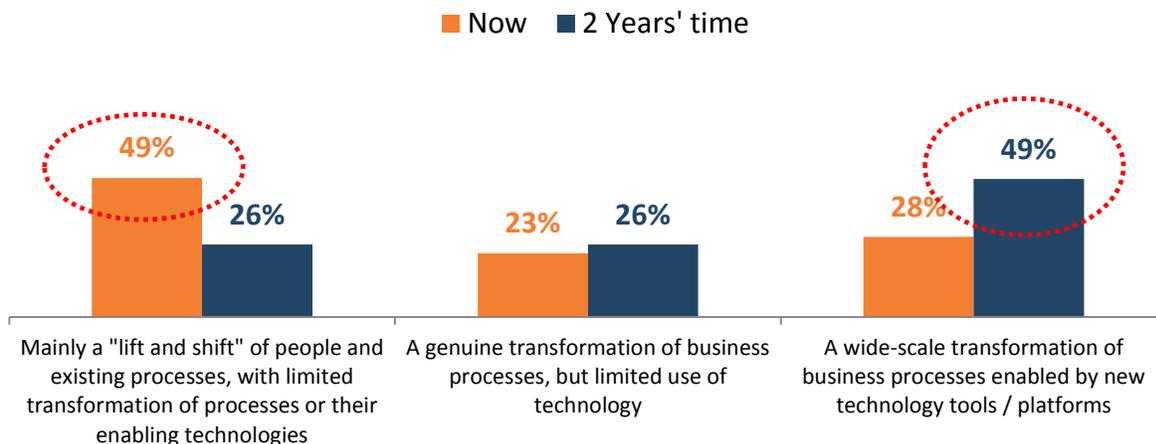
## Half of the BPO Industry Expects to Move Beyond a Labor Arbitrage Focus within Two Years

It's time for the BPO industry to step up and get serious about matching the expectations and perceptions of enterprise clients to the capabilities and solutions that the service providers should be delivering them. The model of "lift and shift" BPO, which is essentially low-cost offshore labor delivering a client's own processes and systems, is no longer what the majority of buyers expect – or want – to receive in the near future.

Our new research study on the role of technology in BPO shows (**Exhibit 1**) that while currently 49% of the surveyed 189 BPO clients described their current BPO engagements as "mainly lift and shift," within the next two years, only 26% of BPO buyers expect to still be in a "mainly lift and shift" engagement. By contrast, within two years 49% of BPO buyers expect to be in an engagement based on "wide-scale transformation of business processes enabled by new technology tools/platforms," up from 28% of buyers today.

*This is a huge shift in buyer expectations across the marketplace that has to be achieved in a relatively short timeframe across billions of dollars in existing and emerging contracts.*

**Exhibit 1: How BPO buyers describe their current engagements now and where they want to be in two years' time**



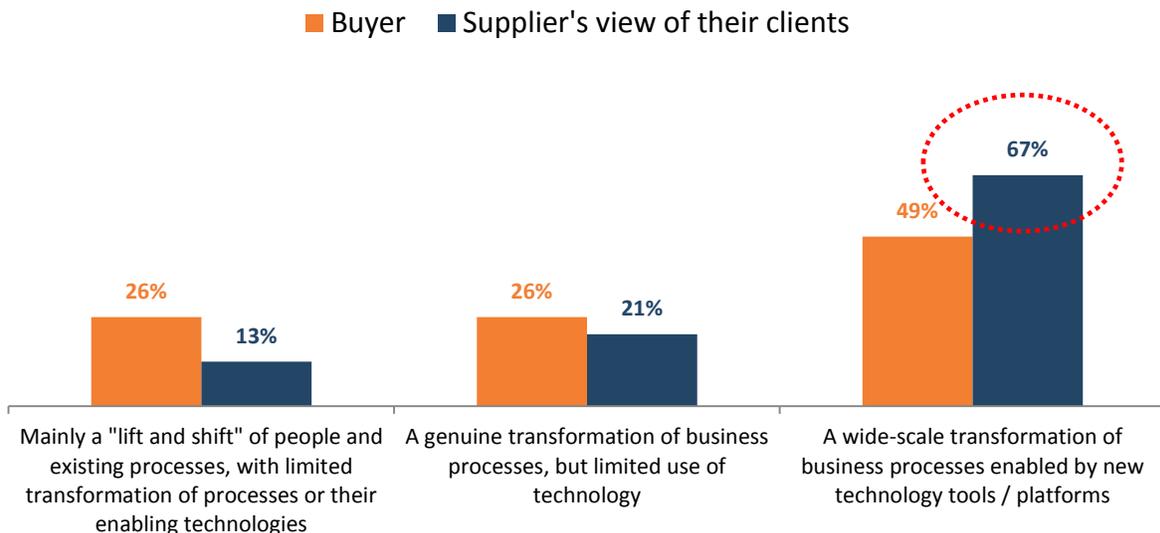
Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives

*While there are some further gains we can exploit with wage arbitrage, we know that we can't keep going back to that well for future efficiencies.*

**Many enterprise buyers are aware that they need to improve radically their BPO models.** The data clearly signifies that enterprise buyers are aware of their current operational performance and 49% have advanced significantly with their BPO model to embrace technology and process transformation in a short-term timeframe to get there. To this end, one governance executive at a major healthcare insurance provider added, "Our team has been given a roadmap with specific milestones to demonstrate how we're going to generate future efficiencies and productivity gains for our firm. Our bottom line is we have to deliver, whether we like it or not. We need to evaluate better technology systems that can provide process automation and tools to help our analytics capabilities."

**Service providers are even more confident their clients can progress their BPO models.** While half of buyers today are pressured to be operating in a transformational BPO environment that encompasses process and technology transformation, service providers (**Exhibit 2**) appear to be even more confident (67%) their clients will have evolved well away from their "life and shift" model.

**Exhibit 2: How BPO buyers and BPO service providers describe where their current engagements will be in two years' time**



Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives; 358 Service Provider Executives

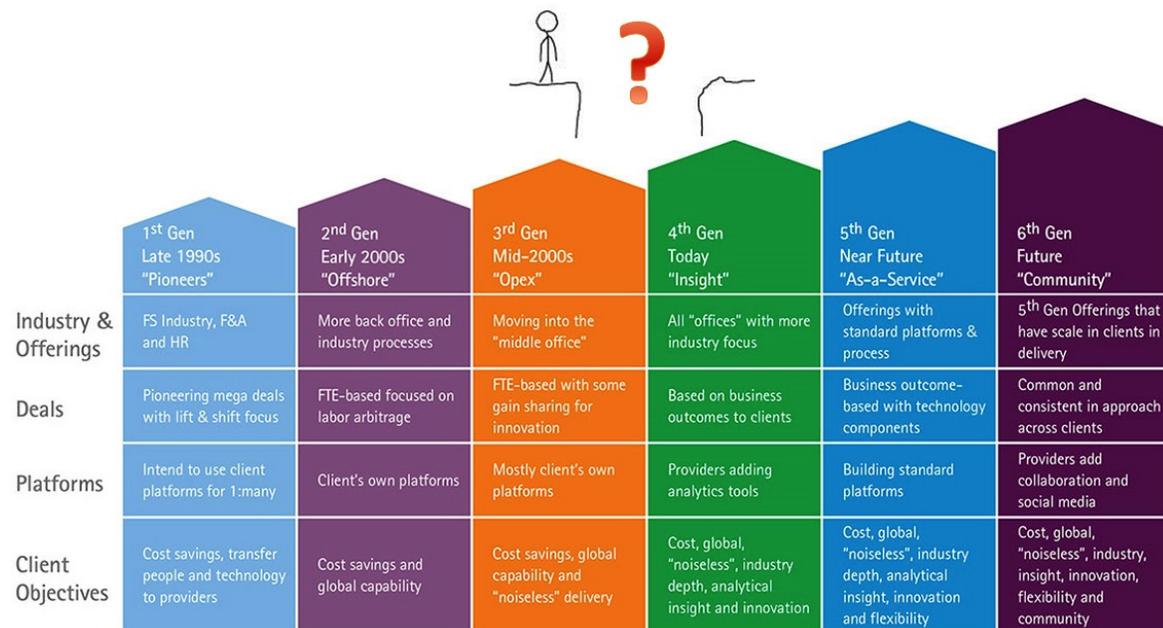
In short, HfS believes this data signifies the BPO industry is on the brink of a major evolutionary shift and enterprises need to overhaul their approach to developing their talent, transforming their processes and investigating enabling technologies that can promote common standards, automated workflows and meaningful data to support decision making.

However, it is one effort for an enterprise to set out an internal roadmap to achieve these objectives, but a separate effort is required to work with their service provider – or portfolio of providers – to communicate their desired roadmap and have them help supply the talent and technology expertise needed to facilitate this change.

## Crossing the BPO Chasm from the Third to the Fourth BPO Generation

Accenture BPO has created a framework based on its research and experience entitled the “Generations of BPO.” The framework illustrates the various evolutionary steps BPO engagements (**Exhibit 3**) would take from their early inception to where the buyer believed the business was headed in the near future. In the context of this framework, our survey data would put 49% of BPO buyers in engagements that could be placed no further along than the Third Generation. To be a Third-Generation engagement generally means that the process has been lifted from the client environment and placed on/offshore in delivery centers. In these centers, operational excellence / Six Sigma resources have done what they could using small technology enablers (e.g., macros, screen scrapers) to optimize the current process, without fundamentally transforming the operations or bringing in a new comprehensive technology platform. This has usually resulted in buyers’ expectations for initial cost reductions being met over time; however, other expectations including greater process standardization, enabling talent to improve their strategic value to the business and giving greater scalability to the operations, are much harder to realize in the Third Generation of BPO engagements. In order to more effectively deliver these higher value buyer expectations, BPO engagements need to bring in additional industry expertise and an orientation to achieving business outcomes using analytics (Fourth Generation) and comprehensive technology platforms (Fifth Generation) tied together with further collaboration and communities (Sixth Generation).

**Exhibit 3: Accenture’s “BPO Generations” Continuum**



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**Half the BPO buyers today are currently contemplating this shift from the Third to Fourth Generation.** Moving an engagement to the Fourth Generation and beyond is not a simple change but instead requires a journey to “cross the chasm” from a labor-arbitrage-based mindset to a state of empowered people running a broad transformation of the business operations.

Once enterprises have leaped over that “chasm” between Third and Fourth Generation BPO, the opportunity to achieve the targeted business outcomes with BPO becomes much more possible. This is one reason why the expressed desire in the new HfS survey by BPO buyers to move to the state of “wide-scale transformation of business processes enabled by new technology tools/problems” within the next two years is so prominent.

## Many Providers Are Failing to Deliver the Capabilities Buyers Need to Transform their BPO Experiences

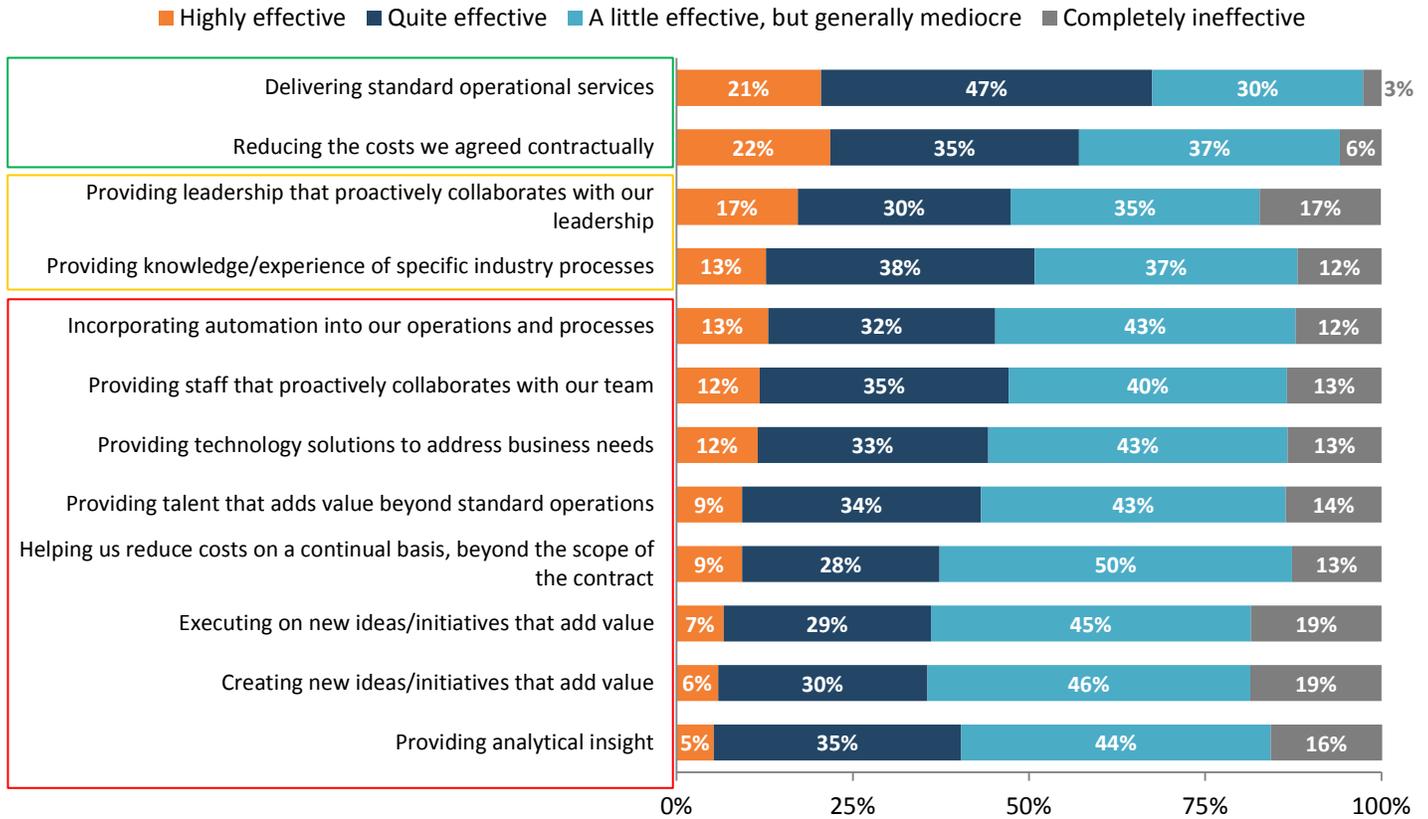
One finance lead for a major consumer products company spoke of their firm’s need to transform, but discovered their service provider was simply not geared up to help them. “When we signed the initial contract,” said the executive, “we were promised analytics, transformation support, change management support and new technologies. Three years into the engagement and all we have is very basic, operational processing. All the provider is doing is meeting their basic contractual obligations. Now we’re stuck trying to figure out whether we can switch providers.”

*“We have tried to open the discussion about improving our analytics and the overall value they provide and they simply do not seem to have the talent or the capability.”*

Sadly, our interviews have reinforced similar experiences from clients where many buyers are simply struggling to experience more than offshore staff augmentation—“lift and shift”— from their providers. **Exhibit 4** shows the startling truth, where BPO buyers were asked to assess the current performances of their providers. In almost every category, mediocrity prevails.

**Exhibit 4: Talent, technology and analytics value is absent in two-thirds of BPO engagements**

*How effective is your current primary BPO service provider at delivering the following business benefits with your current BPO initiative?*



Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives

**Where BPO is performing well (green).** The positive news for the BPO industry is that providers are proving effective at delivering the principal two table-stakes of BPO: In more than six out of every ten engagements, providers are delivering the standard basic operations and meeting the pre-agreed contractual cost reduction targets for clients on more that six out of every ten engagements.

**Where BPO performance is average (amber).** Encouragingly, half of BPO buyers are pleased with the efforts their provider’s leadership are making to collaborate with their leadership, which is a recent trend we have observed where provider leaders are getting more hands on with their clients. This is encouraging for buyers who need to discuss how to evolve their BPO value beyond very basic service provision. In addition, HfS is encouraged by more than half of buyers being pleased with the specific industry process knowledge their providers are bringing to the table – an area that has proved much more disappointing in past studies.

**Where BPO is underperforming (red).** The areas in the red box give serious cause for concern regarding the potential of the vast majority of today’s BPO engagements to cross the chasm between the Third and Fourth BPO Generations described in **Exhibit 3**. When you consider that many of the leading BPO providers today are significant IT services firms, it is staggering that over half of buyers are dissatisfied with the technology solutions

and automation being incorporated into their engagements. Not only that, among the areas where providers can easily impress with relatively little investment is in providing talent that can be more proactive with their clients, and also in delivering more than simply operational support.

The picture becomes even more depressing with the fact that barely four out of ten BPO buyers can attest to some positive performance with new ideas and initiatives and some analytical insight from their providers. Simply put, the majority of providers need to step up significantly, to fulfill their clients' ambitions of moving to a broader transformational environment where they are benefitting from process and technology transformations. On the flip side, HfS research last year (see "[Is Good Enough Really Good Enough](#)") examined the talent issues in sourcing, revealing that many buyers simply do not have the right talent mixes on their outsourcing governance teams to work effectively with their providers to take advantage of their analytics capabilities, jointly plan and develop new initiatives, or work collaboratively on problem-solving or outcome-based gainshare initiatives.

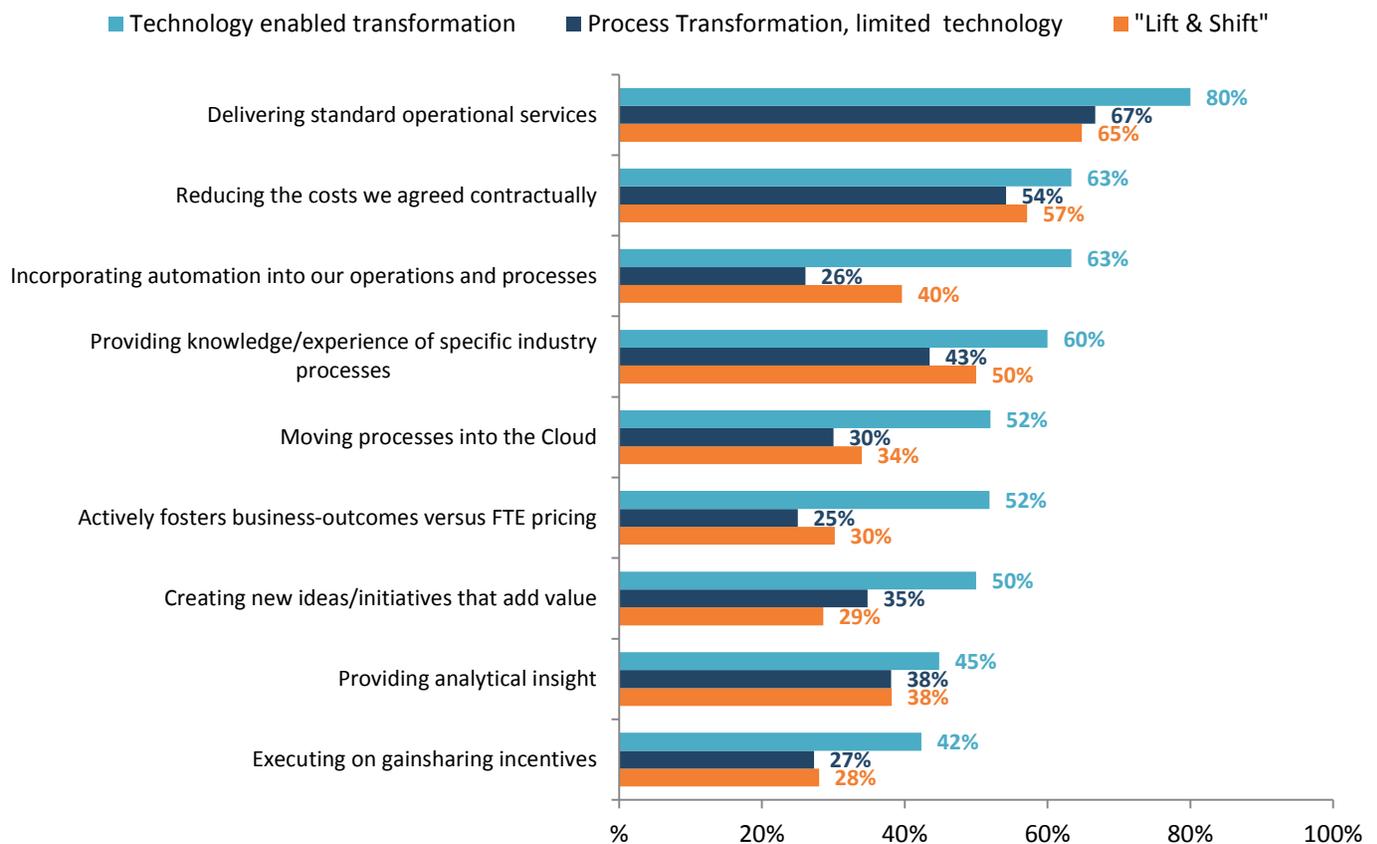
**Too many engagements are set up as transactional partnerships from the onset.** After deal signing, most buyers staff their governance teams with contract managers and transactional staff tasked with simply meeting the standard operational metrics and ensuring the engagement is running on budget (the green box in [Exhibit 4](#)). It is only when buyers realize they need to look at new methods for achieving additional productivity, beyond the initial labor arbitrage, that they become frustrated with their teams' inability to develop more transformative and analytical capabilities. In short, many of these BPO engagements find themselves stuck in a Third Generation stalemate because the initial teams on both the buyer and provider side, are focused solely on getting the deal done and then delivering on the basic financial and operational requirements. HfS has discovered many situations where the delivery teams on both the buyer and provider side, had no involvement in the initial contracting of the agreement, nor any visibility into the primary motivations of both parties. They were simply handed an engagement to run and metrics to attain, with minimal (or no) inclusion of any collaboration or co-innovation initiatives.

## BPO Buyers Who Have Taken the Leap to the Fourth Generation Are Reaping Many Rewards over Those Stuck in the Earlier Phases of BPO

When we segment the BPO buyers into the categories of transformation, it is plainly obvious where those which have made the leap to the Fourth Generation are performing (**Exhibit 5**).

### Exhibit 5: Technology-enabled transformations are reaping the best results for BPO clients

*How effective is your current primary BPO service provider at delivering the following business benefits with your current BPO initiative? ("Quite Effective" and "Highly Effective" responses)*



Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives

**Buyers with technology-enabled BPO outperform for standard operational delivery.** Firstly, those buyers with technology-enabled transformational BPO are reaping much better results from their standard services (80% view their engagements as quite to highly effective). This is indicative of the impact technology enablement can bring to standardizing processes and workflows that underpin process delivery and enable greater visibility and control for clients. According to one finance executive responsible for overseeing a finance and accounting BPO initiative at a

major media enterprise, “Our provider implemented some workflow tools that enabled our accounts payable process to be fully automated. As a result, we’ve been able to reduce the amount of sub-tasks from 36 to 23, our payments cycle has sped up considerably and we have much faster access to cash flow data and overall visibility over our processes.” As **Exhibit 5** illustrates, automation capability is one of the areas that is vastly improved with technology enablement of process workflows (80% see real effectiveness). Technology clearly offers one of the fastest tracks to demonstrable improvement, in terms of ROI, with BPO engagements.

**Buyers with better technology-enablement of BPO are able to make the shift away from an FTE-based model.**

52% of buyers with technology-enabled BPO are seeing real progress towards shifting away from the “lift and

*“Once we had greater visibility over our workflows and transactions, we were able to start constructing a model where we could start to manage by transaction volume and work with our provider to develop this into our overall pricing model.”*

shift” BPO model where the only value metric is based on cost per employee. This is twice the proportion of those clients which haven’t undergone technology-enablement of their BPO processes. According to the finance executive at the media firm, “Since we renewed the contract, we now are paying for our accounts payable service purely by cost per invoice processed; we have greater visibility and predictability into our costs now.” Other BPO clients, still operating in less mature models without technology-enablement universally struggle to move away from the FTE model as they simply do not have the data and visibility of their transactions. While some clients have embarked on some gainshare initiatives for example, offering incentives to their providers for speeding up their collections processes, or achieving greater savings from spend management – they have found it nigh-on impossible to develop the predictability of transaction volume without a strong technology underpinning.

**Cloud-enabling process is a major driver for adding common standards and workflows; however, legacy ERP systems are holding back many enterprises.**

Another key factor in shifting away from an FTE model is to move processes into the Cloud, which enables them to be universally accessible across an organization with one set of standards and workflows. Unsurprisingly, over half (52%) of the buyers who have undergone a technology transformation can boast effectiveness of process delivery in the Cloud, which is a real driver behind shifting away from an FTE model. However, one key factor holding back many buyers is their heavy reliance on on-premise ERP which proves very cumbersome when it comes to Cloud-enabling many back-office processes which are still mired in legacy software-based frameworks. “Our finance processes are so tied to our back-end data warehouses and our custom-built ERP that we’re years away from moving them to a Cloud model,” stated one BPO client. However, HfS is seeing more progress moving HR process into the Cloud, especially with many companies investing in Workday’s emerging HR platform. One client pointed out that “Workday has enabled us to unify our hire-to-retire processes across our North American operations in just a few months. Our provider has been able to help us implement the software and make rapid progress away from many of the manual processes we were relying on previously. Moving to a Cloud model has enabled us to unify processes rapidly across manufacturing plants.”

**Technology-enabled BPO has enabled buyers to achieve greater analytical insight and innovation capabilities.**

Most strikingly, technology-enabled BPO buyers are achieving real effectiveness in higher-value areas, namely new ideas/initiatives (50%), analytical insight (45%) and even gainsharing with their providers (42%). While clearly there is room for improvement in these areas, it is notable how those buyers that have invested in technology to enable their BPO are able to focus on higher-value outcomes. One major global high-tech company has been working with

its provider to develop a finance dashboard tool that helps provide real-time access to revenue cycle data. What is innovative about the initiative is that the provider is developing the tool at minimal cost, with the agreement with the buyer that they can resell the tool to other clients when fully developed. HfS sees this as a genuine example of BPO gainsharing and innovation that adds significant value to both buyer and provider, and gives the buyer access to the best skills and expertise from their provider without paying exorbitant fees. Additionally, many of those buyers which have ventured into Fourth Generation BPO are clearly excelling at developing new ideas and initiatives. Much of this is because the more streamlined and standardized the operations become, the more buyers can focus on the higher-value areas that can add real value to their business and align their operations with the corporate goals.

One finance controller for a leading consumer products firm expands on this dynamic: “We embarked on a major initiative with our provider to roll out a unified financial system after we had undergone the initial BPO transition. Now we’re fully operational. Our finance staff is able to focus on planning and analysis activities and on providing much more relevant data to our leadership team than previously. In the earlier phases of our BPO they were consumed with just getting through the day with our basic operations. Now things are running better than ever and our finance team is performing at a level we have never seen before.”

*We can also work with our provider on new initiatives, such as big data and change management – I credit the technology investment as core to getting to this state.”*

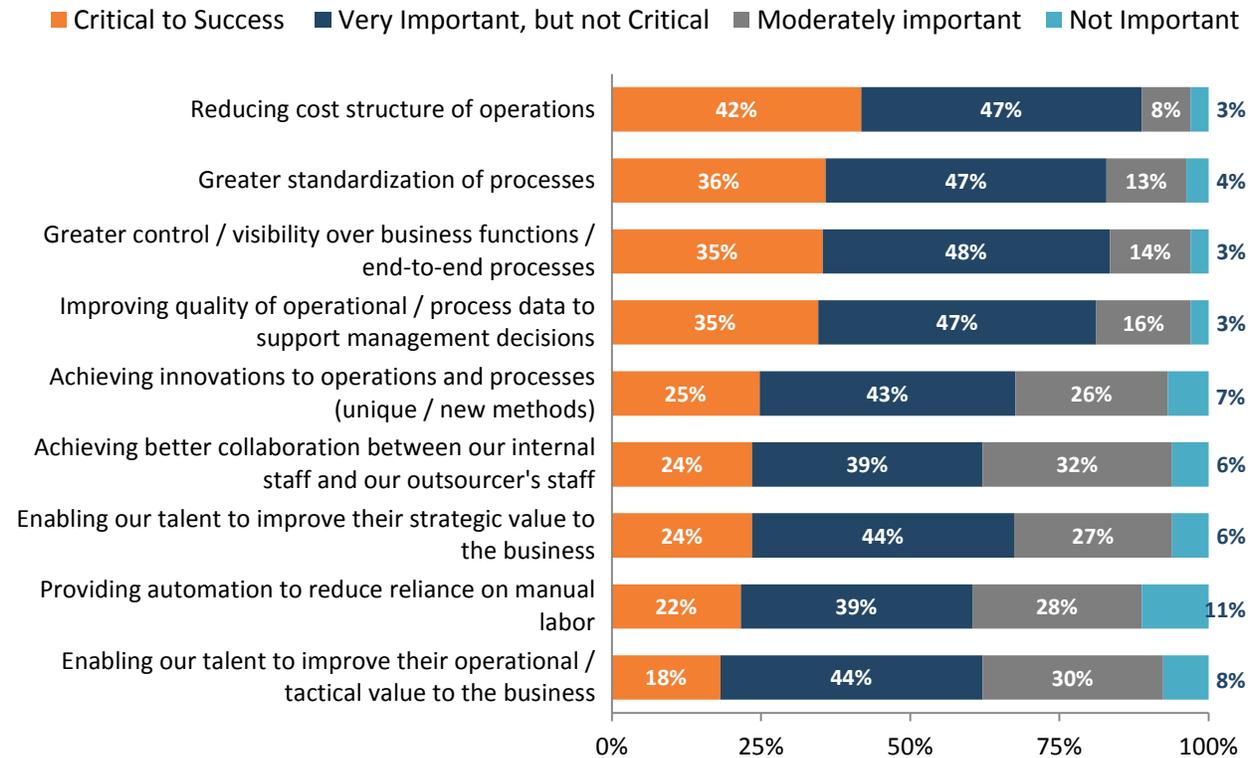
## BPO Buyers Today Prioritize Cost Reduction, Common Standards, Control Over End-to-End Processes and Quality of Data with Their BPO Strategies

Our survey of BPO buyers identified that at least 70% of them would describe a current BPO engagement as successful if it delivered on the following business outcomes:

- » Reduced cost structures of outcomes
- » Provided greater standardization of processes
- » Enabled greater control / visibility over business functions and end to end processes
- » Improved quality of operational data to support management decisions
- » Gave greater scalability to operations

**Exhibit 6: The importance for BPO buyers of achieving business outcomes from their current engagements**

*How important is it to achieve the following business outcomes from your current BPO engagement(s)?*



Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives

**BPO buyers need to achieve the basics first before they can fully focus on higher-value outcomes.** Regardless of the type of current BPO engagement (lift and shift, process transformation, technology enabled transformation) a

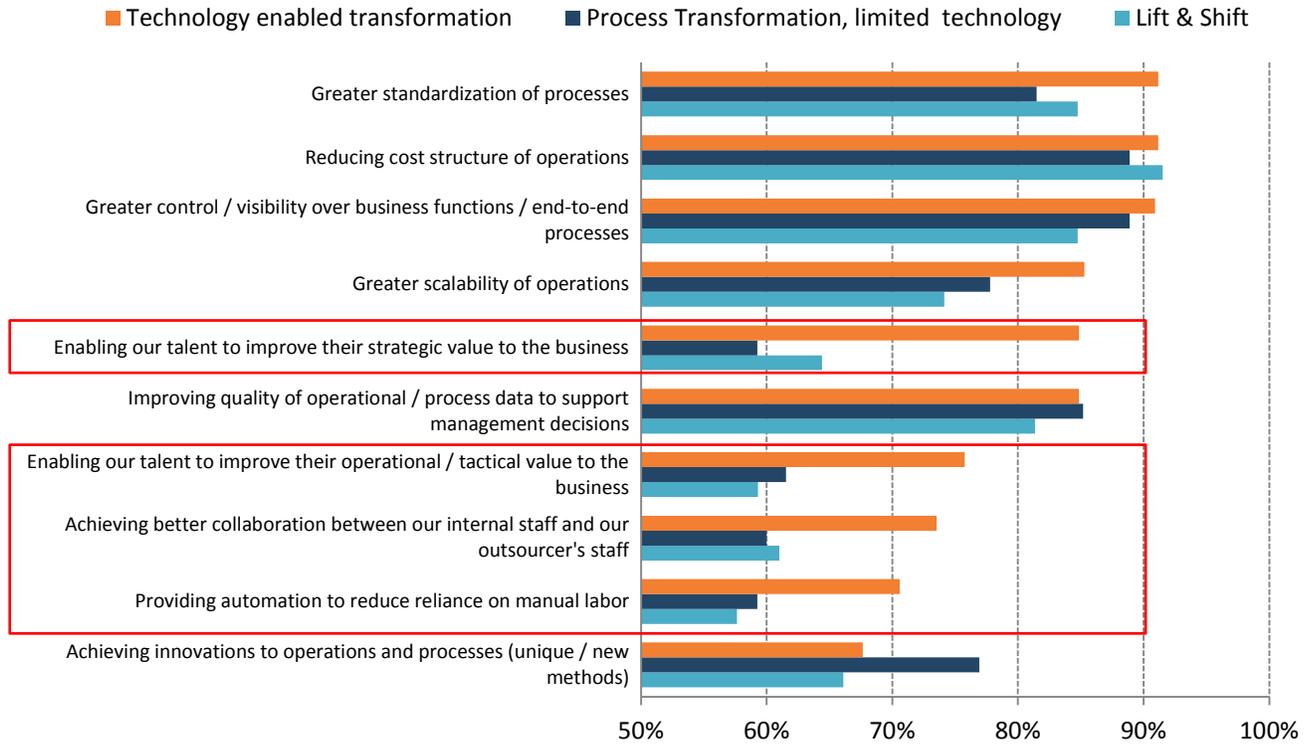
*"Once we have reached a point where we have a robust set of process flows and technologies, we can focus on getting better analytics and driving new innovative programs."*

significant majority of BPO buyers (89%) view reducing the cost structure of their operations as either critical or very important business benefits to be achieved. However, while in the past, the prime foci of BPO has been largely the first two outcomes – cost containment and standardization of process – it is notable that improving control over end-to-end processes (83%) and access better quality operational data (82%) are viewed equally as important. Hence, the more technology can influence these operational outcomes, the more buyers can focus on the next wave of outcomes that add value, notably innovations to operations (68%), greater collaboration between provider and buyer delivery staff (63%), enabling talent to add more strategic value to the business (68%) and providing automation (61%).

The head of the center of excellence for one major healthcare provider describes his company's approach to outcomes with BPO: "BPO is an incremental journey for us, when it comes to achieving additional value and innovation. First we have to drive out cost, and then standardize the processes to create a more streamlined operation." **Exhibit 7** shows how buyers' desired outcomes evolve as they move along the BPO Generations.

**Exhibit 7: The importance of achieving business outcomes by current engagement type**

*How important is it to achieve the following business outcomes from your current BPO engagement(s)? (“Critical” and “Very Important” responses)*



Source: HfS Research 2014, N = 189 Buy-side Executives

Buyers with technology-enabled transformation are much more focused on achieving higher-value outcomes than merely cost reduction and process standardization. For most of the business benefits beyond just reducing cost, BPO buyers are much more likely to see the value when the engagement is designed around a technology enabled transformation. It is this desire to get more out of BPO engagements for the buying organization that is driving this urgency to change up the design and intent of current BPO engagements and get to a Fourth Generation model (or beyond) within the next two years.

Most notably, enterprises that have already gone through a broad technology transformation with their BPO engagement are more motivated to improve both their strategic and tactical value to the business. As mentioned earlier, our talent study from last year (see “The Great Talent Paradox”) emphasizes this desire for more strategic governance talent as the engagements mature. Clearly, the onus to achieving higher value outcomes increases as the BPO maturity progresses along the Generations maturity continuum outlined in Exhibit 3.

## Part II: Technology as a Core Enabler to Get to Value beyond Cost in BPO

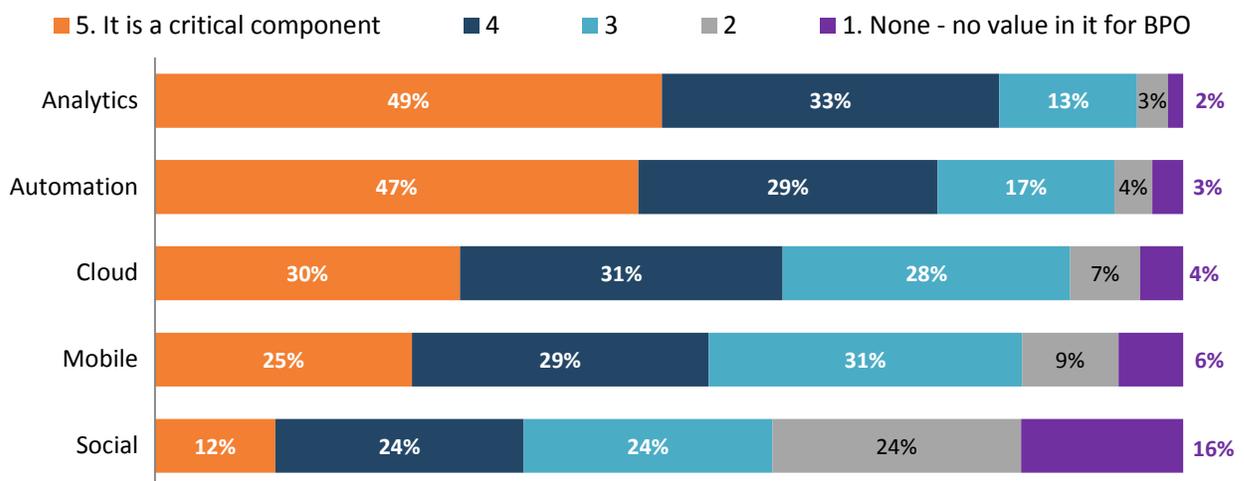
### Analytics and Automation Have Become Critical for Improving the Outcomes of BPO Engagements

With more than half of BPO buyers today wanting to progress their current engagements to a transformative state within the next two years, there exists a broad mandate for them to unleash the potential of several different flavors of technology to add value to their current BPO experiences.

We see from the survey results (**Exhibit 8**), and from the many discussions we have had with buyers, service providers and advisors, that getting the technology and the services around analytics right in current engagements (the “A” in SMAC – Social, Mobility, Analytics and Cloud) is of paramount importance. Half of the buyers stated that analytics is a critical component to making the move to value beyond cost. This is not a surprise, given the focus on analytics technologies and capabilities from BPO service providers over the last few years (although we will return later to whether the reality has matched the promise to date). What was surprising was the nearly comparable level of support from BPO buyers for automation which, until recently, had barely been in the conversation between buyers, service providers and advisors. By comparison, the other elements of the SMAC stack (Social, Mobility and Cloud) were less critical to buyers.

#### Exhibit 8: How BPO buyers see the criticality of different technologies to their engagements

*What role can each of the following emerging technologies play in improving the outcomes of your current and future BPO engagement(s)?*

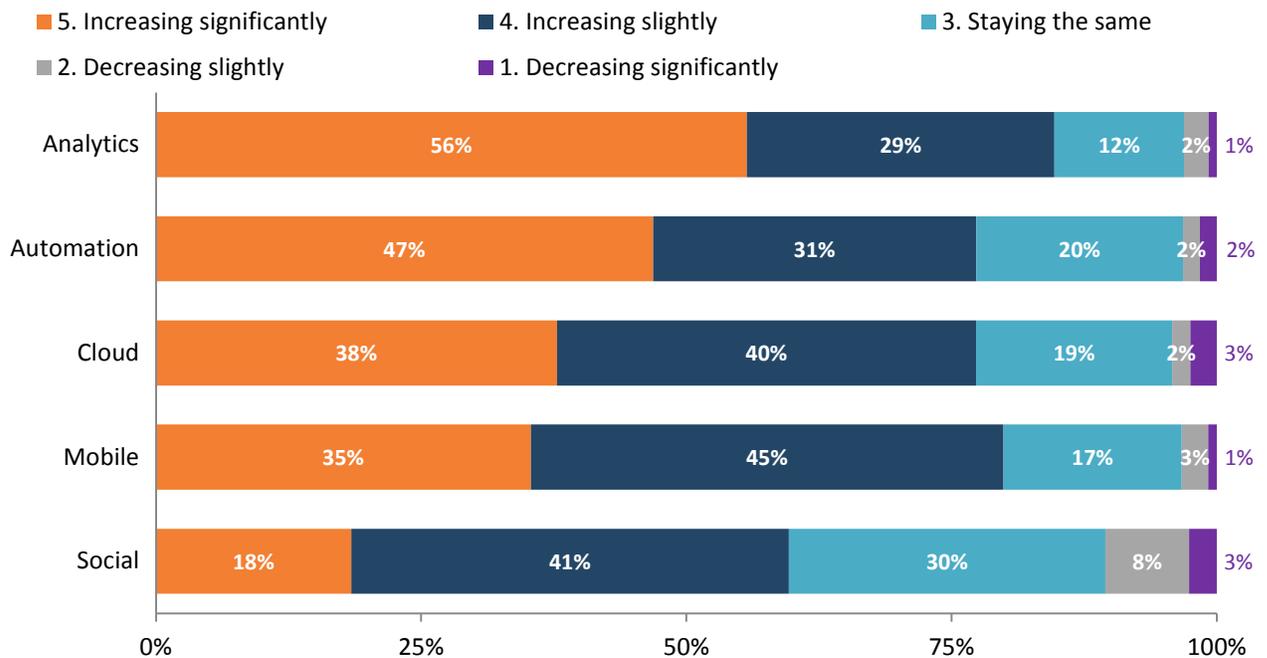


Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives

**Mobility, social and Cloud are increasing in importance to BPO buyers.** We also asked the BPO buyers whether they saw these same technologies as increasing in importance in their engagements and their responses suggested that for Cloud, mobile and social, they saw their importance rapidly increasing, despite the relatively limited value currently being obtained from them. For example, only 54% of buyers saw mobility as a critical or near-critical component (**Exhibit 8**) yet 80% of the same buyers saw this technology as increasing in importance in their engagements (**Exhibit 9**). This suggests to us that technologies like Cloud, mobility and social are driven more by enterprise-wide initiatives than directly from the BPO service providers, while analytics and automation capabilities are much more front and center to BPO today and form an integral differentiator across service providers

**Exhibit 9: How BPO buyers see changing importance of different technologies to their engagements**

*To what extent is each of the following emerging technologies increasing in importance as they relate to your BPO engagement(s)?*



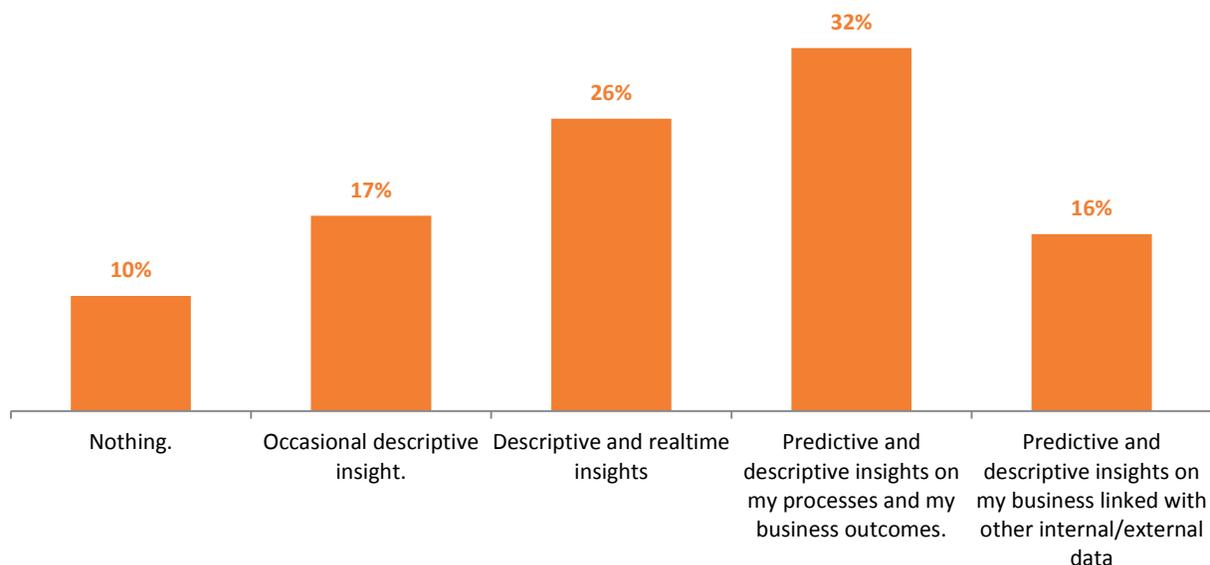
Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives

## Buyers Have Very High Expectations for Analytics to Derive Value from Processes

With analytics being the technology upon which buyers are placing the most critical importance, we wanted to look deeper into the expectations they have for their BPO service providers today to deliver analytics services. What emerged is that for almost half of our surveyed buyers, service providers are expected to be sources of insight – not just providing descriptive transactional data from the process they operate, but also by providing predictive insights on how the processes can impact their overall business outcomes.

### Exhibit 10: What BPO buyers expect service providers to deliver in analytics today

*What do you realistically EXPECT from your service provider to deliver today with analytics?*



*Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives*

**Buyers need to give their providers access to their intimate data if they really want value from the provider’s expertise.** This desire is in line with the broad ambition that buyers have to move to more transformative and value creating engagements – described as the Fourth Generation in Exhibit 3. Traditional cost-based, labor arbitrage deals generally would not –and should not – be expected to deliver on anything more than the occasional descriptive insight, as service providers would not have the necessary capabilities in place to provide broader insights; and buyers likely have not given their providers access to the necessary data to create a deeper level of collaboration to bring these insights forward. As several providers have pointed out to HfS during our research process, “We wish our clients would give us access to their data so we can help them.”

**Buyers need to assess their providers’ analytics capabilities thoroughly if they want to get value from them.** There is a gap, however, in how many service providers are responding to these high expectations from buyers (**Exhibit 11**). While the vast majority of buyers want real-time insights, only 25% stated they are currently getting a level of insight on their process and business outcomes, beyond what they could get on their own. The impetus is

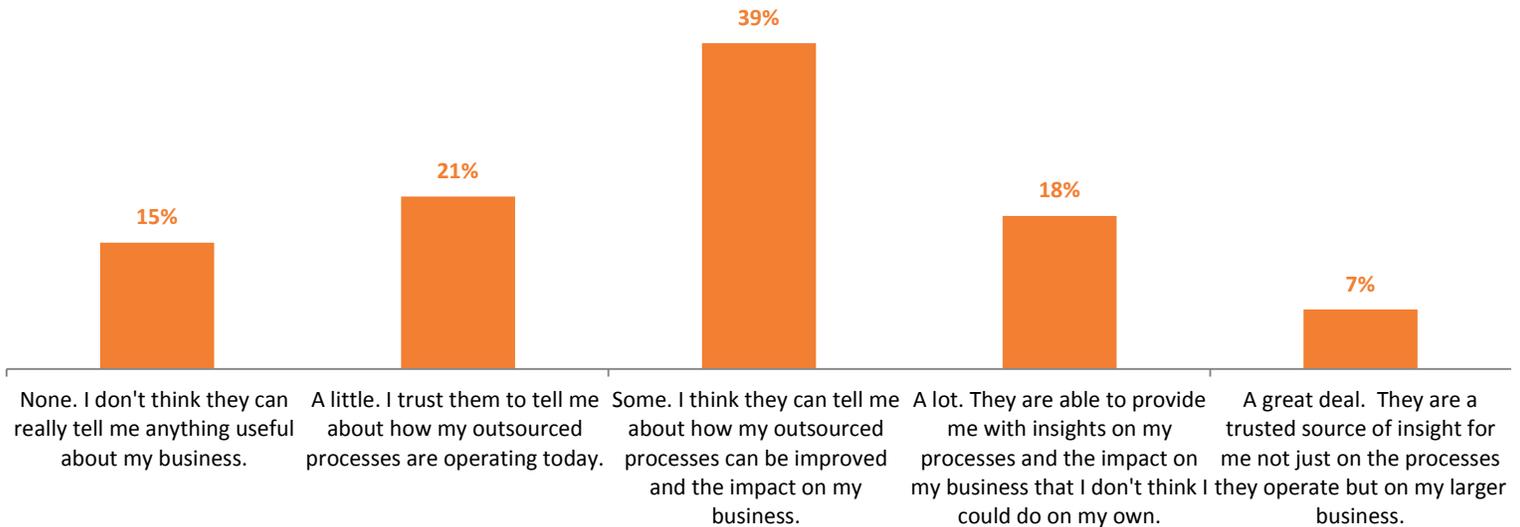
firmly on service providers to step up their capabilities to match what their clients expect of them. From HfS’ many buyer discussions, it is clear only a small handful of service providers are clearly stepping up to service their clients effectively as analytics partners.

According to one esteemed consultant from a leading management consultancy specializing in BPO advisory, “We ensure our clients thoroughly assess the analytics capabilities of BPO service providers – both in terms of their provisioned staff, and also their technology, when we are going through the vetting process.” HfS is also seeing several BPO buyers use specialist analyst firms, and sometimes a competitive BPO provider, in addition to their primary BPO provider, in order to support specific analytics projects for them as they seek to progress their analytics capabilities. Net-net, if your provider comes up short with analytics, our advice is to look further afield for support.

*With analytics there is a significant gap between what buyers expect and what they are currently getting from their providers.*

**Exhibit 11: What value do BPO buyers put on the analytics capabilities of service providers?**

*How much VALUE do you place on the analytics capability of your service provider(s) today?*



*Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives*

## Process Automation Is a Technology to Speed the Transition to Value beyond Cost, but Who Should Take the Lead Remains Open for Debate

In late 2013, HfS wrote about how process automation was coming on strong as a central source of value creation in the current BPO marketplace (see “[Framing-a-Constitution-for-Robotistan](#)”). Even still, we were surprised at the fact that half of our surveyed buyers stated that process automation was a critical technology to help them progress their BPO engagements towards value creation beyond mere cost reduction ([Exhibit 8](#)).

In some ways, process automation is first and foremost a cost play, as it seeks to replace certain roles in engagements without transforming and modernizing the underlying legacy applications or systems of record from what they are today. More importantly, however, it is a virtualized FTE conducting the process in exactly the same way at between 25%-50% of the cost of the person. Seen from this perspective, process automation is also a key technology in bringing value beyond cost for existing lift and shift engagements because it can:

- » **Reduce errors and enhance compliance.** Automated processes can be much more efficient and effective because they eliminate human interventions that can create unintended errors or delays. This can be a critical source of value creation in processes where even the slightest error can cause significant “delivery noise” (e.g., payroll processing) or where regulatory compliance is critical to business success (e.g., health care claim processing, capital markets, etc.).
- » **Improve job satisfaction for retained staff.** Process automation solutions remove many of the mundane and unsatisfying tasks we currently ask our human teams to perform each day, creating opportunities to focus their time on more rewarding and value-creating activities.
- » **Provide process analytical insight.** By recording every action performed by the automation software, a repository of data is available for process performance, which can be used to identify previously undiscovered bottlenecks and create opportunities for further optimization.
- » **Deliver true 24 x 7 potential.** Process automation software does not need to sleep; they can be fully utilized to operate around the clock at times that may maximize the efficiency of the end-to-end process rather than working only when it is most convenient to staff delivery people.
- » **Provide an opportunity to re-shape engagements around business outcomes.** Buyers and BPO service providers can use the rollout of process automation solutions to re-shape their engagement contracts, to one that will quantify (often with risk-sharing economics) new types of created business value and to step away from pure FTE pricing. These outcomes, such as increased working capital, reduced Days Sales Outstanding, and improved customer satisfaction scores, are all more achievable when the underlying processes are more automated and effective.

The big new question for BPO buyers and governance teams, as well as their service provider colleagues, is who should be driving the process automation agenda. Buyers managing large single-service provider engagements should likely be driving the service providers to share their process automation strategy and the evaluation of how they can improve the overall performance of the engagement. For buyers that have already placed operational responsibility in the hands of a single service provider, it makes sense to have them be a partner in this effort, especially if they can re-work the contract and commercial model such that it rewards both parties for their effort. According to a BPO governance lead from a major healthcare insurance provider, “We’ve invested in Trizetto technology, but we also know it’s a long road, so today we are building in business rules with offshore vendors to see if they can improve and automate existing elements of our processes.”

*“Automation is heavily driven in claims, where we’re looking to eliminate manual input by standardizing and automating the activities.”*

It is not so clear-cut, however, for enterprises that have multi-sourced the same (or different but dependent business processes) to have different service providers at the same time. In these instances, our conversations with BPO buyers suggest they are seeing the advantage of driving the process automation through their own retained teams rather than being at the mercy of potentially different or even conflicting process automation strategies from each service provider. The ability of the enterprise to see an end-to-end vision for a process, even if only automating the process in separate sub-processes to be delivered as they are today by people, allows these buyers to control the overall design and to be the directors of how value will be created from this new technology. In addition, there is also room for a service integrator or prime contractor model to define the governance model. As we move more processes to the Cloud and multiple sourcing platforms, the need will grow for a service integrator from many enterprises.

## Buyers Don’t Yet See the Potential of Cloud and Struggle to Tie It to their BPO Strategy

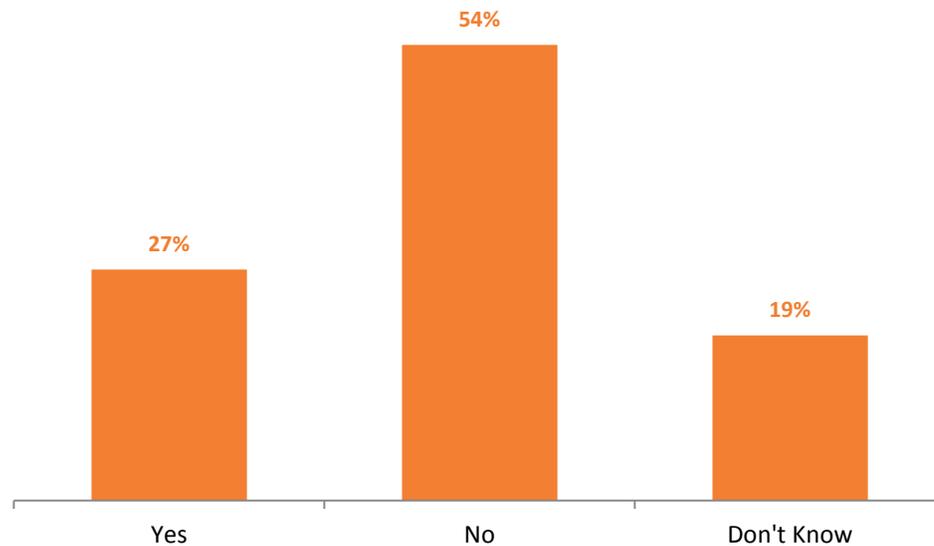
*“Cloud is a key component for our BPO strategy, and we are using it heavily.”*

As the BPO marketplace evolves with more platforms and tools emanating from the service provider rather than being part of the enterprise architecture behind the firewall – we are seeing a greater and greater use of Cloud-hosting capabilities from service providers (see [Exhibit 5](#)). According to a leading transportation firm, “For example, with Salesforce, we deploy it not only with our frontline sales team, but we also maintain a single platform that is used by customer service as well – so it’s truly end-to-end and not two separate systems.”

**Buyers struggle to understand how to embrace the potential of Cloud with their current BPO engagement.** Since service provider staff will use many of these Cloud-hosted applications rather than enterprise staff, the architecture and location of these solutions is not necessarily transparent to the enterprise either. The lift and shift legacy of the majority of BPO buyers is part of the reason why a majority of our surveyed buyers did not, to their knowledge, have any services provided to them by BPO service providers via the Cloud and a solid 19% simply did not know.

**Exhibit 12: Does your BPO service provider deliver services to you via the Cloud today?**

*Question: To your knowledge, does your service provider deliver services to you via the Cloud?*



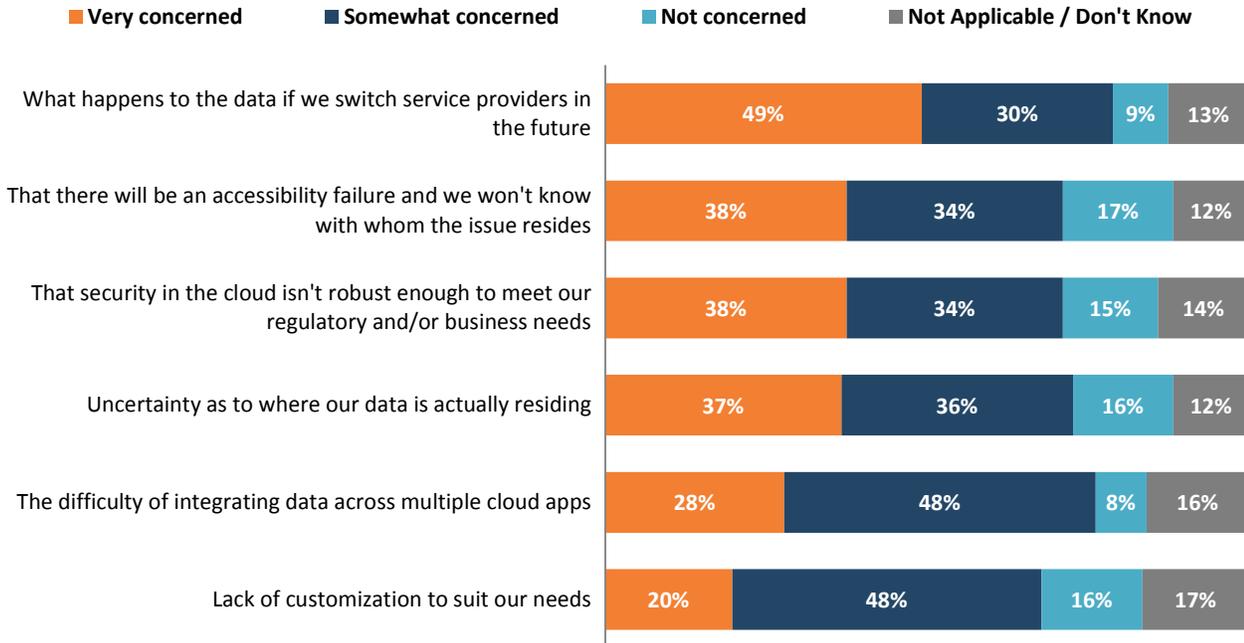
*Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives*

There is also a high element of fear regarding Cloud-based service delivery in BPO (**Exhibit 13**). First and foremost is the concern that by removing transaction data from inside the enterprise and putting it out on the Cloud, there is a greatly reduced level of control as to where that data resides and what happens to it in the event that the enterprise wants to change BPO service providers. This is a very practical concern and, together with related concerns around who is ultimately accountable (and identifiable) for failure resolutions and data security, constitute some of the concerns that BPO service providers will need to address as they seek to bring more enterprises onto their Cloud-hosted platform solutions.

**Buyers fear losing control over their critical data.** For example, a major healthcare insurance provider has contractual obligations to its customers regarding data privacy. Some of the company's customers insist that no private data can be stored in physical locations outside of their home country, usually for compliance reasons. Its outsourcing governance group has identified this as one of several potential security issues that can be problematic for BPO providers to execute.

**Exhibit 13: What are your concerns today about BPO service provider Cloud solutions?**

*How great are your concerns about Cloud-based technologies today, provided by your BPO provider?*



*Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives*

In fact, these are all resolvable concerns. Thus, it is critical that leading service providers, especially those with a legacy in IT service delivery, make significant efforts to educate buyers about their Cloud capabilities and risk mitigation approaches.

## We Are at the Tipping Point for Mobility-Enabled BPO

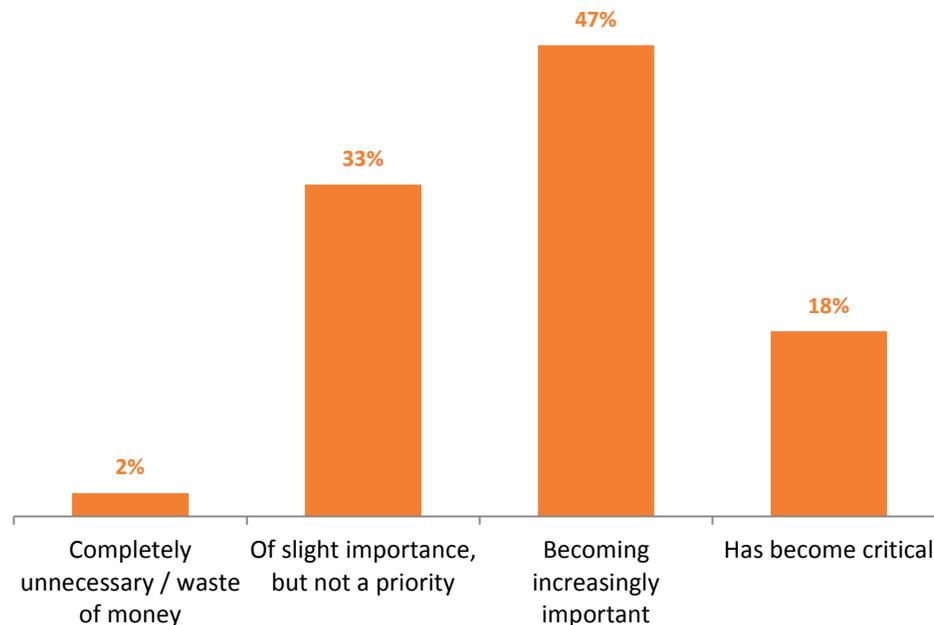
The BPO industry has been talking about mobility-based services for several years, yet HfS' discussions with all market participants shows that there are still only a limited set of use cases out in deployment. HfS believes the mobile experience for consumers and employees is important as part of an effective BPO transformation.

**Most buyers have yet to fully realize the benefits of mobility to help improve BPO effectiveness.** For instance, there are mobile applications for document ingestion, data entry in claims and procurement functions, customer relationship management, employee access to HR processes and for overall performance management and analytics reporting. In general however, we still tie most processes (and people) to their desk or the delivery floor and, in doing so, lessen the realization of the potential value of mobility. This situation is increasingly out of sync with the overall trends in buyer enterprises, where enterprise staffs are looking for more support to be mobile in their roles.

As **Exhibit 14** illustrates, almost no buyers surveyed view mobility as unnecessary or a waste of money and two-thirds see it being increasingly important or critical to extend enterprise business processes to mobile access points.

### Exhibit 14: How important is it to extend business processes to mobile access points?

*Question: "How important is it to extend some of your company's core business processes to mobile access points?"*



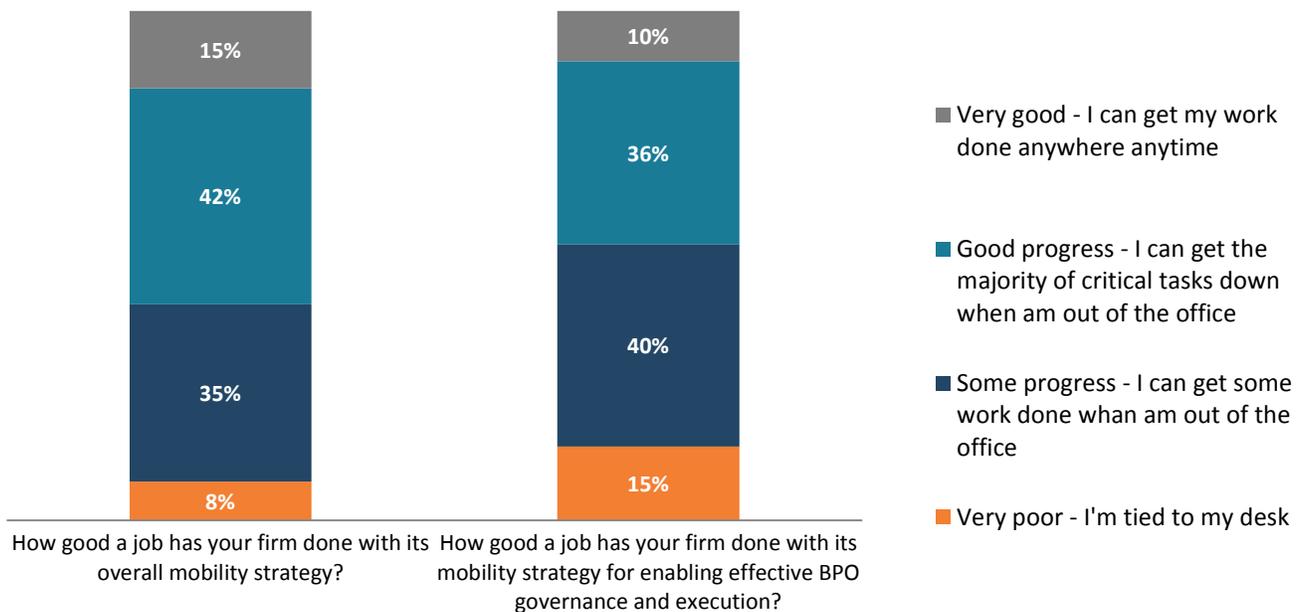
*Source: HfS Research "Technology in BPO" Study 2014, N = 189 Buy-side Executives*

However, for all this increasing importance of mobile, it appears that enterprises are only making moderate progress (**Exhibit 15**) in rolling out their mobility strategies and even less progress in effectively tying together the BPO processes to the mobility capabilities of the enterprise. Without this mutual investment it is hard to see how the full potential value of outsourcing will be realized in the enterprise. For example, mobility capability is increasingly important to the core business, according to one of the leading health insurance providers: “We’re moving heavily toward mobile apps for our members. We’re even looking to deliver ID cards to these devices, rather than just in the mail. More broadly, we’re looking towards these apps in our attempts to move to a more self-service model for our members.”

*Mobility is one of the areas that enterprises need to do more on their side to help facilitate the integration of outsourced business processes.*

#### Exhibit 15: How effective are your enterprise mobility strategies?

*Question: “How good a job has your firm done with its mobility strategy?”*



*Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives*

## Value Creation from Social Media in BPO Is Lagging, Despite Great Potential

As shown in **Exhibit 8**, BPO buyers are looking for critical value creation from analytics (49%) and automation (47%), by contrast, social media is not yet seen as being anywhere near as critical at only 12%. This might be because applying a social media environment around a labor-only BPO engagement likely is not adding a great deal of value.

**Most buyers need a much more sophisticated technology-enabled BPO environment to start reaping the full benefits of social media.** There is little scope for innovation in a lift-and-shift engagement, beyond very granular process improvements or tool implementations, compared to a more transformative, technology-rich engagement where social media can drive more collaborative insights on the evolution of the embedded technologies and the process itself. This is why Accenture placed social media and collaboration as the Sixth Generation (**Exhibit 3**) following on the heels of the extensive deployment of analytics and platform technologies.

*“Today, we have to be engaged with social activity and our reaction needs to be quick to avoid reputational challenges.”*

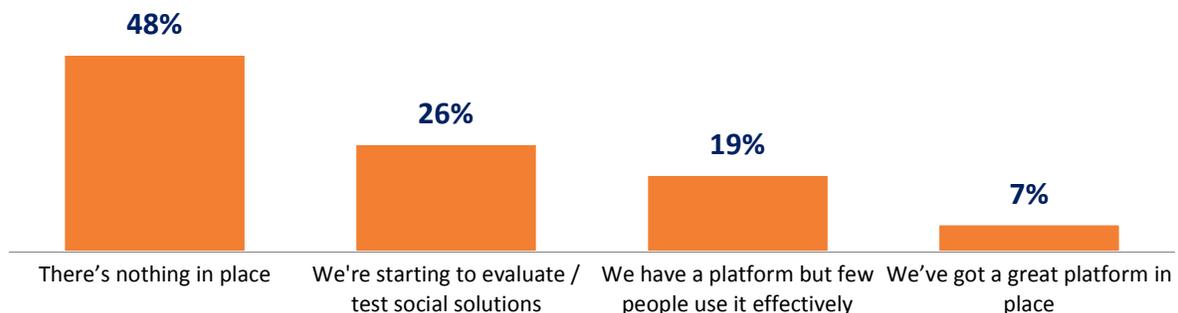
As with mobility, the full value opportunity from social technology comes not from the actions of the service provider alone but from the integration of the enterprise-wide capabilities in social to the solutions of the BPO service provider and vice versa. To-date, that integration according to our surveyed buyers is very limited with only 7% saying that they had a great platform in place today. According to one buyer, “We currently have a team in-house that monitors and responds based on established rules, but we are looking to potentially engage with a third party firm.”

Of all the areas of technology discussed here, social media is clearly the most lagging, yet there is still real potential for enterprise buyers and their service providers to create value through social media by using the technology to:

- » Harvest new ideas and innovations
- » Manage and increase customer engagement
- » Understand feedback from the market on products and business processes
- » Enable collaboration between the enterprise and service provider teams.

#### **Exhibit 16: The adoption of social platforms for engaging with BPO service provider staff**

*Question: “How far along are you in adopting social platforms for engaging with your BPO provider's staff?”*



*Source: HfS Research “Technology in BPO” Study 2014, N = 189 Buy-side Executives*

# Key Takeaways: BPO Is Reaching a Critical Value-Paradox Where Some Will Get on the Train, but Others Will Be Left at the Station

**BPO is reaching a critical value-paradox.** The BPO industry has reached a point where it must deal with a critical paradox: half of today's buyers expect to move away from a purely labor-arbitrage based model within the next two years. At the same time, buyers lack the skills to drive genuine transformation themselves, and six out of ten feel their providers are failing to deliver that kind of transformation. It's a classic paradox: We know we have to get better, but we're not doing the things that would actually *make* us better.

Buyers wanting to break out of that stifling paradox will have to improve the strategic skills of their governance team by redefining the job competency models of the individuals managing service providers. At the same time, buyers need to evaluate the capabilities of their service providers to ensure they have the right talent and technology to get them where they want to go. In some cases, buyers may need to bring in other service providers or consultants to deliver on the more transformative requirements, or even switch out their incumbent provider altogether. HfS believes some buyers will step up and make the bold moves to get to Fourth Generation and beyond, while others will struggle because they do not have a top-down mandate to make the required investments.

**Process automation is the significant game-changer to break the reliance on the linear "FTE model."** BPO buyers will eventually see their efficiency gains wither away if they cannot break out of the labor arbitrage model, where they are charged purely on headcount. Once buyers reduce their internal headcount through BPO, they will not want to increase them, so BPO delivers a "new normal" in terms of cost expectations for running a function. Automation will provide the bridge between the labor arbitrage past and the state of technology-enabled transformation. By leaving the current processes in place but removing FTEs, an additional era of labor savings can occur without requiring fundamental change.

**Both buyers and service providers need to up their game if they want to capture more value through BPO.** Buyers and service providers need to re-think all of the existing process and remove/replace all "analog" steps in the process which may currently be eased by technology but which aren't fundamentally digital in nature. The move to digital process platforms is inevitable as buyers and providers continue to search for ongoing savings, but such a move won't happen in the near term. The investment budgets of most BPO service providers remain too low to fuel digital innovation, while at the same time the majority of buyers and service providers still think in terms of FTEs more than process outcomes when contracting. Buyers also need to revamp their governance skills to cover these new capabilities, while many service providers need to invest in the higher-caliber talent, analytics capabilities and technology platforms required to create this value. HfS believes the BPO industry's ability to change is still slower than what buyers say they want and also slower than the timetable service providers' claim they can deliver on.

**BPO service providers need to bring in more technology-centric personnel.** Service providers need to re-organize around product management and development teams – driven by software engineers supported by business analysts – rather than around capability teams defined by the geography of delivery centers or the existence of broad pools of generalist talent. The chief technology officer of a BPO service provider needs to have as much as a voice at the leadership table as the Function Lead or the Delivery Lead.

**Analytics value will be created by automation.** The push for early analytical insights provided today by automation-lite, labor-heavy analysis will be replaced by a more integrated analytics engine once broad transformational processing platforms become the norm. In essence, there will be two distinctly different analytics periods in BPO: the largely manual period of today and the predominantly automated period of the future.

**Mobile will be driven by the broader enterprise and not generally by BPO.** The application of mobility to BPO will remain limited until such time as processes ultimately are designed to be truly digital. In the interim, enterprises will set the mobile agenda much more than service providers will be able to, but there are already genuine instances where mobility and BPO go hand-in-hand, such as with customer interfaces and governance monitoring tools.

**The greatest value from social media will come after the adoption of business platforms.** Few BPO buyers have significantly deployed social tools between their teams and those of their service providers to any great extent, with most current usage being for messaging. HfS believes that social will be much more valuable when business platforms are truly multi-tenant and social can create the equivalent to an ongoing "software user forum" that drives platform maintenance and features innovation in a collaborative and interactive manner.

## About the Authors

### Phil Fersht



Phil Fersht founded HfS Research in early 2010 and has overseen the growth and development of the organization to become the leading analyst authority and knowledge community for global business services. He is a renowned expert in the fields of Business Services and IT Strategies and frequently discusses complex industry-specific issues that impact how enterprises manage their global business operations.

He is also author and creator of the acclaimed blog for the global services industry, entitled "[Horses for Sources](#)," and now entering its eighth year with over a million visits per year across the globe, in addition to hundreds of reports and articles. Fersht was named "Analyst of the Year 2011" by the Institute of Industry Analyst Relations (IIAR), winning the premier analyst award for a second successive year - the most coveted global award for industry analysts in technology and services industry.

Over the past 18 years, Fersht has lived and worked extensively in Europe, North America and Asia, where he has advised on hundreds of operations strategy, outsourcing, and shared services engagements. At HfS, Fersht directs and contributes to the firm's research, advisory and global knowledge community, which today totals over 145,000 professionals.

During his career, Phil Fersht has worked at AMR Research (Gartner Inc.), leading the firm's BPO and IT Services practices and served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing consultancy Everest Group, where established the company's BPO research practice. Phil began his career at IT analyst IDC where worked in the firm's European, US and Asia/Pacific operations.

Under his leadership, HfS Research was named first in rising influence among leading analyst firms, according to the 2013 Analyst Value Survey, and second out of the 44 leading industry analyst firms in the 2013 Analyst Value Index. In 2012, the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, awarded HfS research analyst industry's Most Innovative Analyst Firm in 2012.

Fersht received a Bachelor of Science, with Honors, in European Business & Technology from Coventry University, United Kingdom and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France. He also has a diploma from the Market Research Society in the United Kingdom.

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## Charles Sutherland



Charles Sutherland is the Executive President of Research HfS Research. In this role he oversees the entire research agenda for HfS while also maintaining coverage personally over supply chain, procurement and mortgage services. He also researches and writes about BPO service provide strategies and how automation and SMAC (Social, Mobility, Analytics and Cloud) is creating value for buyers and new sources of growth for the BPO marketplace.

Charles has been in the BPO marketplace for more than 12 years including roles as the Chief Strategy Officer for SourceHOV and the Managing Director, Growth & Strategy for Accenture's multi-billion dollar BPO Growth Platform. In these roles he has had a breadth of experience in thought leadership, strategy development, acquisitions, business development and long term investment planning in BPO.

Charles has also had Growth & Strategy roles for Accenture in Infrastructure Outsourcing and for the Communications, Media and High Tech Operating Group. Prior to that he was a Strategy Consultant in London for Accenture serving clients in the Media, Communications and Consumer Goods industries. If you go even further back in time he was also a Marketing Director for Olivetti in Canada and Europe.

Charles has an MBA from INSEAD in Fontainebleau, France and an Honors BA in Economics and Political Science from the University of Toronto.

Charles now resides in Southlake, Texas where his sartorial choices showing support for the Red Sox, Bruins, Arsenal and Australian Cricket have been known to draw a few looks of surprise.

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## About HfS Research

HfS Research is the leading independent analyst authority and community for the global business services and outsourcing industry.

HfS serves the research, governance and strategy needs of business operations and IT leaders across finance, supply chain, human resources, marketing, and core industry functions. The firm provides insightful and meaningful analyst coverage of the best business practices and innovations that impact successful business outcomes, namely talent development, process automation and outsourcing, global business services frameworks, mobility, analytics and social collaboration. HfS applies its acclaimed crowdsourced Blueprint Methodology™ to evaluate the performance of service providers in terms of innovating and then executing against those business outcomes.

In addition to researching business operations strategies and their technology enablement, HfS educates and facilitates discussions among the world's largest knowledge community of enterprise services professionals, currently comprising 145,000 subscribers. HfS Research facilitates the [HfS Sourcing Executive Council](#), the acclaimed elite group of sourcing practitioners from leading organizations that meets bi-annually to share the future direction of the global services industry and to discuss the future enterprise operations framework. HfS provides sourcing executive council members with the HfS Governance Academy and Certification Program to help its clients improve the governance of their global business services and vendor relationships.

In 2013, HfS was named first in rising influence among leading analyst firms, according to the 2013 Analyst Value Survey, and second out of the 44 leading industry analyst firms in the 2013 Analyst Value Index.

In 2010 and 2011, HfS was named “Analyst of the Year” by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals and achieved the distinctive award of being voted the research analyst industry's Most Innovative Analyst Firm in 2012.

Now in its seventh year of publication, HfS Research's acclaimed blog “[Horses for Sources](#)” is widely recognized as the leading destination for unfettered collective insight, research and open debate about sourcing industry issues and developments.

To learn more about HfS Research, please email [research@HfSResearch.com](mailto:research@HfSResearch.com).

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<sup>1</sup> For example, recent research into “High-Performance BPO”—conducted by the Everest Group and the Outsourcing Unit at the London School of Economics, in conjunction with Accenture, found that, in the best BPO relationships, technology is a source of innovation and advantage, not just the infrastructure of delivery. For example, 40 percent of high performers in the Accenture survey consider technology provided by the service provider to be an important component of the BPO relationship, compared to only 27 percent of typical performers. Even greater numbers of high performers, 56 percent, believe it is important to gain access to technology in a BPO relationship, while only 34 percent of typical performers agree.