The Evolution of Business Process Services

BPO industry has a relatively brief but an interesting history. In two decades of its existence, it has transformed its value proposition to its customers from a pure play labour arbitrage provider to a business partner. All this is set to change in the third decade of its life cycle. As BPO services move up the value chain, BPO vendors are likely to play increasing role in shaping the overall business strategy and perform services of strategic importance to customers. In this article, the author attempts to predict the future trajectory of BPO industry and how it is going to reinvent itself to deliver enhanced value to its customers.
About the Author

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Evolution of BPO Value Proposition

Among the various industry sectors that emerged in the last century, the Business Process Outsourcing (BPO) industry is relatively new. While contract manufacturing started to gain traction since the Second World War, subcontracting services or back office operations was not so commonplace. In the 1990s, companies in the United States started to outsource their non-core service operations, triggered by the concept of ‘Core Competence’ that was popularized by Gary Hamel and C.K. Prahlad. In the initial years, many repetitive, low value, transaction processes were outsourced to third party service providers who could do it more efficiently. Many large corporations from the US and Western Europe also set up shared services functions in low cost locations or started enlarging their existing captive units.

Over the years, the pure cost and labor arbitrage value proposition gave way to value-based services, process optimization and transformation. Service providers started to use advanced improvement methodology like Six Sigma to improve the quality of deliverables and ensure error-free processing. In the last four to five years, BPO services have expanded significantly and knowledge-intensive, industry-specific and analytical processes are being outsourced. Synergies between IT and BPO delivery, process re-engineering and transformation, and global delivery have all become critical elements in BPO services.

Technology is the biggest game changer in the delivery of BPO services. Marrying technology to the delivery of business processes, the focus has now shifted to offering clients a “pay-per-use” platform. The service providers deliver services to the client in an agile, efficient and effective way.

Progressive BPO organizations are now moving from services that centered around the Sales, General & Administration (SG&A) functions to those around Cost of Goods Sold (COGS). This means that outsourcing services not just saves cost and allows customers better efficiency, but also creates an impact on their top line.

In a nutshell, the key elements of the BPO industry now center around:

- Creating industry-specific offerings to improve toplines
- Decision support services through analytics and insights
- Cloud and utility models provided through the BPO Platform

This change of focus from efficiency to effectiveness needs deep domain knowledge and ability to carry out transformation.
**Keys to Transformation: Industry and Domain Expertise**

Services that are being outsourced today have moved beyond the transactional processes. To impact the customer’s top-line, the service provider must understand and add value to customers in the context of their industry and differentiate them from their competitors. Outsourcing today involves what a provider can do to help a bank to manage its loans better, to help an insurance company to administer its policies in a more robust way, to support a pharmaceutical company in getting drugs faster to the market or assist a retailer to merchandize goods that its customers want.

![Fig 1: Industry/domain expertise critical for service providers](image)

In a recent client survey conducted by TCS, we found that more than half the clients considered that functional expertise in the domain was a critical factor while deciding whether to opt for outsourcing. A third of the clients considered it important to have experience or a client base in that industry. This goes to show how significant industry-specific offerings and domain expertise are to the relationship with clients.

In addition, the clients expect service providers serving multiple clients to not only bring in benchmark performance data and best practices but also sophisticated models to assess process maturity and evaluate the performance of the company with respect to global benchmarks.

**From Information to Insights**

BPO service providers handle large amounts of data for clients, enabling them to use high end analytics to make inferences that can be used by the business to increase revenues, reduce costs or contain risks.

For example, while handling the charge back process for a large US based home improvement organization, a BPO company got clear insights on the demography from where most charge backs originated and on the product lines that were responsible for majority of the charge backs, and relayed back the information to
enable the client organization to design effective policies and programs to contain the charge back volume. Similarly, analytics in insurance back office operations can help in designing differential premium rates for automobile insurance, after taking into consideration a host of factors that determine the risk profile of a client. As BPO vendors start managing increasingly larger portions of the value chain and offer enhanced value by providing business insights, they are beginning to graduate into business advisors for their clients. For instance, rather than just running the back office of a global car rental company, the service provider could help it decide which depots to shut down or where to open new ones.

**Using Technology to Improve Delivery Efficiency**

Technology is increasingly driving straight through processing, middle and front office processing. Service providers will cause disruptive changes in client processes and technology as a part of the outsourcing strategy, thus not only bringing in significant cost reduction but also, more importantly, a vast improvement in the top line.

Two options are gaining ground in this technology-led transformation of BPO delivery. One is the proposition of Platform BPO as shown in Option C of Fig 2 and the second is the proprietary process software as shown in Option B of Fig 2.

The principle of the Platform BPO option is to move clients to standardized processes on a common platform or application hosted and maintained by the vendor. Here the service provider brings multiple clients using the same and/or different ERP platforms or legacy systems onto the vendor platform – thus bundling application management and hosting with the delivery of services.
With the advent and growing acceptance of cloud computing concepts, clients are demonstrating higher acceptability of “Platform BPO”. In a recently conducted survey of 300+ buyers, TCS found that around 40% of the responding customers were willing to host their infrastructure over a private cloud. Interestingly, this was across different outsourced business processes. Around 20 to 30% of respondents, again across service areas, were open to infrastructure hosted on a service provider’s platform.

![Fig 3: Buyers' willingness to host infrastructure over a private cloud or managed by service provider](image)

In option B (of Fig2), the services are delivered on the client’s platform but using process layer tools that are often proprietary in nature and built by the service provider. Process layer tools or middleware include workflow and collaboration tools that can significantly improve cost efficiency and management of processes. This model is a natural evolution from Option A which is the traditional technology infrastructure of a BPO operation and a competitive model to Platform BPO (Option C). It is especially suitable for large clients who have multiple ERP systems and can leverage IT expertise of the vendor to build or buy suitable middleware to provide significant efficiency gains to the clients.
Conclusion

The BPO industry that started roughly two decades back and witnessed explosive growth over the last decade is all set to change in the next decade. The changes will be most visible in three dimensions as BPO clients will demand greater value from the service providers in terms of process harmonization, technology leverage and business insights. To summarize:

- BPO clients will demand from service providers serving multiple clients to not only bring in benchmark performance data, best practices and consequent improvement in productivity (that are increasingly becoming the table stakes) but also sophisticated models to assess process maturity for the clients.

- BPO clients will look for technology expertise from their service providers and will increasingly expect service providers to bring in transformational gains by leveraging appropriate technology.

- BPO service providers will move up the value chain and become trusted business partners for their clients as they begin to manage larger scope and bring in valuable business insights through high end analytics.
About TCS BPO

Business Process Services (BPO) at TCS is about managing & executing business operations. Our domain expertise helps deliver core business processing across industries, analytics & insights and support processes such as accounting, HR and supply chain management. TCS partners with customers to accelerate co-transformation, and generates business value for customers through delivery excellence, risk management and through innovative models such as Platform BPO which delivers process as a service. With annual BPO revenues of greater than US$ 1 billion, TCS is one of the largest BPO providers with 35,000+ employees servicing 175+ customers across the globe.

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