Introduction

If you listen to many commentators the Business Process Outsourcing (BPO) industry is being hunted down by modern day four horsemen of the apocalypse - RPA, AI, Cloud and Digital. There is no doubt that it is a sector facing severe disruption but it’s too early to be administering the last rights, perhaps there is even cause for optimism. The choice and accessibility of transformation levers in operations has never been greater.

There will always be a desire by some organisations to use third parties to execute the renovation and operation of their business services. Why?

**Because a BPO arrangement enables:**

1. **Risk transfer**
2. **Exploitation of commercial structures**
3. **Shared resources**
4. **Focus**

This paper explores these arguments in more detail and offers some suggestions about what BPO providers could do to take advantage of, rather than be disintermediated by, the disruption.

Why is everyone so pessimistic about the BPO industry?

What is going to happen to the million plus people engaged across the world in BPO service delivery today? To understand this we need to quickly recap some history.

The first BPO contracts involved the transition of people, IT and facilities. Delivering a better outcome for the client and a margin for the provider, they relied heavily on re-engineering the whole operation (involving significant technological change). They were contracted on an output basis over a long term to allow the economics to play out for both parties. And while no business stood still, these long-term contracts could accommodate the typical rate of change at that time. In parallel, single capability or process specific providers emerged as an alternative to the multi-process (or generalist) ones.

As developing economies matured, communications costs fell and remote access security improved. It then became easier and quicker to access savings simply by moving the work to lower cost labour markets. It avoided the need for risky IT change and so arbitrage came to dominate over efficiency. The buyers played their part as it felt simpler to procure and contract for inputs (e.g. price per FTE) rather than outputs and so the client felt more in control.

In just a few years, BPO became synonymous with off-shoring. There were still plenty of output, outcome and transaction based arrangements but contracts with FTE based pricing became the norm. Many providers were not that interested in investing in technology or new ways of working to reduce the FTEs needed. Why spend money and take risk just to erode revenues?

The rise of accessible technology like RPA, chat bots, etc. makes it easy to reduce the manual effort in processing transactions. Overlay this with changes in customer behaviour driving increased self-service or digital inputs (through apps), then the need for agents reduces. The lacklustre response by some BPO providers to these trends has intensified the pressure to automate and drive efficiency.
Since BPO is simply the contracting of delivery responsibility for a specific business process to a third-party service provider, if these companies are not going to do the work then it must mean it will be done in-house. Pretty straightforward. Many organisations deliver their own business process and have access to the same technology and resources from the market. However, this is exactly why the BPO genie will never go back in the bottle, as there are some significant areas where contracting out delivery responsibility beats in-house provision:

**Risk Transfer**

With obligations (service level, price, capabilities, delivery dates, etc.) defined in a legally enforceable agreement, the client has certainty of contracted outcomes and recourse if there is failure. The BPO provider with a portfolio of customers has greater experience of delivering the automation (or any other form of change), might have invested in tooling and can back themselves to take the risk.

Some client organisations will continue to value certainty of outcome over the premium paid for third party service delivery – particularly where the client wants a new operating model exploiting the latest enabling technologies and innovation. With in-house delivery if it takes longer and costs more to deliver change, or run the business, then the organisation has to suck it up.

**Commercial Structures**

The commercial boundary provides benefit delivery opportunities that are just not possible from in-house provision, a few examples include:

- Consumption based pricing enables the client to pay for the items of work done, rather than having to manage inelasticity between the input costs and workload – turning fixed costs variable and aligning to client revenue (depending on context)
- Benefits from exploiting the service, like resale of any co-developed intellectual property, can be shared with the client
- With in-house delivery savings cashed when they are available, the outsourcing arrangement allows the de-coupling of benefits delivered to the client from actual savings achieved.

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BPO: Reports of my death are greatly exaggerated

Jon Clark, Proposition Development, ActiveOps

Shared Resources

Having a portfolio of clients puts BPO providers at huge advantage compared to in-house. They can balance resources across clients, especially where there are counter cyclical workloads within their portfolio. As more and more work becomes automated and the remaining manual work is more complex and unpredictable, the need to share resources to avoid stranded capacity becomes greater.

It’s not just the run components that can be shared; change resources, facilities and IT infrastructure can all be leveraged across greater volume, reducing the unit cost of delivery. The specialist or process specific BPOs are also able to leverage IP, process specific automations, etc.

Focus

In part this is a question of strategy. Does a large global FMCG company want to be famous for invoice processing or making the tastiest soft drinks? The investment and talent is most likely going to align itself to the core business rather than important but enabling functions.

Compare this to a BPO organisation whose core business is processing client transactions – simply put, a cost centre in the client is a profit centre in the BPO. It also covers commitment to change, sometimes in client organisations a change of personnel or competing internal initiatives can disrupt even the best programmes and commitment wains. Using a BPO provider comes with commercial commitments on delivery dates and new capability, meaning that they provide the change agent to drive the delivery of the new operating model.
In the right context it’s clear there can be a substantial difference in the benefits delivered by a BPO provider compared to in-house. These are sufficiently compelling to ensure the industry will survive the current disruptions, that being said, there is no question that the current norm is no longer sustainable and the BPO needs to evolve to ensure survival.

Some thoughts on how to evolve include:

- Establish automation centres of excellence with reusable libraries to accelerate change, reduce implementation costs and create a place to develop best practices. The centres of excellence should use data driven approaches for targeting automation. Building automation software should be avoided in favour of commercial ‘off the shelf’ products. Clients need reversibility they won’t outsource to a vendor if they are not confident that the service can be brought back in-house or moved to another vendor.

- Replace obsolete operations management methods and tools that cannot cope with the blended robot-machine environment. Modern tools will also enable the sharing of operational resources across client accounts with the confidence that service levels for each will be maintained.

- Be bold in risks that will be managed and be confident to exploit the investments and experience embedded in your BPO business. Data driven contract verification and due diligence processes can help identify and manage the risks.

- Dust off some of the deals of the late ‘90s in a return to output-based contracts or develop an outcome contracting approach. De-coupling the link between revenue and FTE will ensure the BPO provider has the ongoing incentive to drive automation and efficiency.

- Finally, do not forget what you already know. That BPO, for example, is a practitioner-based industry, so operations leaders and transformation leaders need to be front and centre of the sales and client onboarding process.

“The centres of excellence should use data driven approaches for targeting automation. Building automation software should be avoided in favour of commercial ‘off the shelf’ products.”

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BIOGRAPHY

JON CLARK, PROPOSITION DEVELOPMENT, ACTIVEOPS

Jon has spent nearly 20 years helping clients transform their operations by outsourcing their business process to Hewlett Packard Enterprise Services.

Throughout his career he has used technology to drive better outcomes within operations across Banking, Insurance, Public Sector and Shared Services and knows that it is critical to have a modern capacity management solution in place to realise benefits from change.

Jon is now helping to make ActiveOps, the leading platform for operations control, an essential foundation for digital transformation.