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Next-Generation BPO: Are You Ready?

Today's Business Process Outsourcing (BPO) looks nothing like it did in the past. From its inception in the 1990s, BPO has undergone a radical transformation that has business executives and providers alike asking, "Just where is BPO heading? What can it do for client organizations now? And what will it do for them tomorrow?"

With 20 years' experience as a steward of the BPO industry, Accenture has captured the evolution of BPO from its earliest generations to its newest incarnation. We believe that BPO is evolving, and have taken a market view that spans yesterday, today and tomorrow and is presented in our model of six generations (see Figure 1). As it has matured, BPO has offered new and increasingly important forms of value for client organizations. By understanding how BPO has evolved to date and where it's headed in the future, businesses in every industry, across every sector, can position themselves to maximize the value offered by BPO.

BPO yesterday: Generations 1, 2 and 3

Advancing from cost savings to global delivery and "noise-less" delivery

The first generation of BPO that came to life in the 1990s, was all about saving money. Organizations outsourced what they saw as non-core operations (most often in human resources as well as finance and accounting and FS industry-specific processes) to providers in exchange for cost savings from an established baseline. Commonly referred to as "lift and shift," this model was characterized by the rebadging of organizations' people and technology from client to provider in the same locations.

As BPO moved into its second generation, the focus shifted from "lift and shift" to global delivery. Clients and providers saw that BPO delivery could move out of rebadged centers and taken offshore. Labor arbitrage became the core of the new value proposition, not just for HR and F&A, but for many other processes that client organizations saw as non-core.

The third generation saw an emphasis on industrialization and process efficiency in the delivery of an increasingly vast and broad set of processes that client organizations had outsourced. Leading BPO providers drew on powerful process methodologies such as Lean Manufacturing and Six Sigma to bring consistency and commonality to their operations on a large scale and across multiple clients.

BPO today: Generations 4 and 5

Leveraging analytics and on-demand service platforms

As valuable as early-generation BPO benefits were, many executives today believe that outsourcing can add even more value to their businesses, particularly in the form of innovation. Indeed, a mid-2011 survey of about 350 outsourcing buyers conducted by Horses for Sources and The Outsourcing Unit at The London School of Economics captured this contrast between achieving successes in cost reduction versus driving innovation on the part of BPO contracts to date. In this survey, respondents rated 46 percent of outsourcing initiatives as very effective in reducing operating costs. They rated 18 percent as very effective in forcing change into a client's business operations. But only 11 percent were seen by respondents as effective in providing new and creative methods of achieving business value.

Today, in what we call the fourth generation of BPO, the best service providers are addressing this gap. They're deploying analytics to extract actionable business insights from the immense stores of transactional data they've amassed during long-term client engagements. And they're using those insights to generate decidedly new kinds of business outcomes not commonly associated with BPO. These outcomes range from accelerated speed to market, enhanced innovativeness and stronger customer loyalty to savvier talent management, and top-line growth. Consider these 4th generation examples that represent a variety of cross-industry and industry-specific BPO clients:

- A leading global oil and gas producer identified $20 million in working capital improvements by using F&A BPO analytics to dive deeply into spending data and applied the insights to move vendors across the globe to standard discounting terms.

Figure 1: BPO Generations

	1st Gen Late 1990s "Pioneers"	2nd Gen Early 2000s "Offshore"	3rd Gen Mid-2000s "Opex"	4th Gen Today "Insight"	5th Gen Near Future "On-Demand"	6th Gen Future "Community"
Industry & Offerings	FS Industry, F&A and HR	More back office and industry processes	Moving into the "middle office"	All "offices" with more industry focus	Offerings with standard platforms & process	5th Gen Offerings that have scale in clients in delivery
Deals	Pioneering mega deals with lift & shift focus	FTE based focused on labor arbitrage	FTE based with some gain sharing for innovation	Based on business outcomes to clients	Business outcome based with technology components	Common and consistent in approach across clients
Platforms	Intend to use client platforms for 1:many	Client's own platforms	Mostly client's own platforms	Providers adding analytics tools	Building standard platforms	Providers add collaboration and social media
Client Objectives	Cost savings, transfer people and technology to providers	Cost savings and global capability	Cost savings, global capability and "noiseless" delivery	Cost, global, "noiseless", industry depth, analytical insight and innovation	Cost, global, "noiseless", industry depth, analytical insight, innovation and flexibility	Cost, global, "noiseless", industry, insight, innovation, flexibility and community

- A medical device manufacturer turned to a BPO team to analyze warranty and defectiveness data, which identified key opportunities for product improvements.
- A leading aircraft engine design and manufacturing company worked with a Supply Chain BPO team to reduce the business's working capital requirements by using supply/demand variation analytics. The result was millions of dollars in value from improved material planning and reduced stocked inventories.

Effective use of analytics in BPO environments (through sophisticated tools and techniques for statistical surveying, root-cause analysis and process optimization), paired with deep industry expertise, exert a major impact on organizations' performance today. Providers should use both descriptive and predictive analytics to help C-level executives understand what's happening now in their businesses as well as what could happen in the future. The next step is to craft the right strategies, incorporating the vast volumes of transactional data a provider accumulates by virtue of its management of a client's business processes and the performance of those processes over the long haul.

In addition to analytics, technologies such as software-as-a-service and mobility are catalyzing further evolution of BPO. With these technologies, we see BPO moving into its fifth generation—characterized by on-demand services applied across multiple clients through flexible software platforms and commercial contract structures paired with standardized processes. Fifth-generation BPO is emerging process by process—and will continue to do so—as these technologies mature and as more clients embrace standardized processes as a source of further value creation.

BPO tomorrow: Generation 6

Building learning communities through social media technologies

We believe that online social networking technologies will help BPO to evolve into yet another generation in the future. Today, business people are increasingly using such technologies to build communities where members share best and worst practices, discuss how they're surmounting their toughest business challenges and learn from one another. We envision using social networking as an extension to the fifth generation platforms which will build these social learning communities centered on BPO-provided processes. The platforms created in the fifth generation would be supplemented by integrated online communities linking client users and BPO provider staff. Through participation in the community, clients could exchange and benefit from each other's insights about how BPO can help them achieve new business outcomes as well as shape the ongoing evolution of the on-demand platform and standardized processes as their own needs and requirements change over time

Which BPO generation are you in?

Where do client organizations and providers stand today in terms of BPO's generations? Unfortunately, many providers are still firmly lodged in the third generation and continue to view BPO as not much more than a cost-saving tool for clients. To get the most value for clients today from BPO, providers need to actively bring together the capabilities of fourth and fifth generation BPO to make a difference.

Questions to consider

1. If you're currently using a BPO service provider, to what extent does the provider use analytics to identify and seize opportunities to improve your organization's business outcomes? To what extent does it use new IT approaches to capture and deliver such opportunities?

2. How do you assess a BPO service provider's potential to serve as a strategic partner for your organization?

3. What kinds of tools would best enable you and your BPO provider to extract actionable business insights from the transactional data generated by processes you've outsourced?

4. To what extent do your competitors use analytics-backed and IT facilitated BPO services? What business outcomes are they getting?

5. How might your organization benefit from participating in the kind of online BPO learning community that could characterize BPO's sixth generation in the future?

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 236,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

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