



Evolving Growth Strategies for Offshore BPO Suppliers

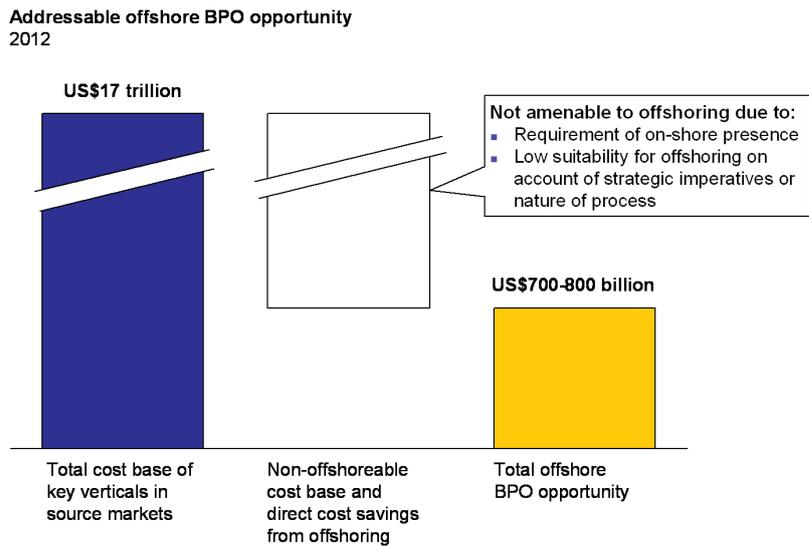
What are the key questions and critical elements of strategic decision-making in developing a growth strategy for offshore BPO suppliers in an evolving marketplace?

The demand for offshore business process outsourcing (BPO) services is continuously expanding. A recent study conducted jointly by Everest Group and NASSCOM (“NASSCOM-Everest India BPO Study: Roadmap 2012 – Capitalizing on the Expanding BPO Landscape”), found that the overall addressable market for offshore BPO services worldwide is on the order of US\$700-800 billion by 2012. Given the current market size of US\$26-29 billion, only three to four percent of the addressable market potential has been captured to date, and this represents a huge upside potential for the industry (see Exhibit 1).

EXHIBIT 1

Significant upside potential for the industry: Addressable offshore BPO opportunity on the order of US\$700-800 billion by 2012

Source: NASSCOM-Everest India BPO Study (2008)



In recent months, suppliers (third-party suppliers and captives) have frequently asked Everest for advice on how they can create sustainable growth strategies in the ever-changing offshore BPO marketplace. Let’s address this question by first looking at the dynamics now occurring in the marketplace and then consider the critical elements of strategic decision-making around the various opportunities for growth.

Changes impacting the offshore BPO market

The offshore BPO marketplace is witnessing continuous change along three dimensions. These forces of change will form the basis for developing new growth strategies by offshore BPO suppliers.



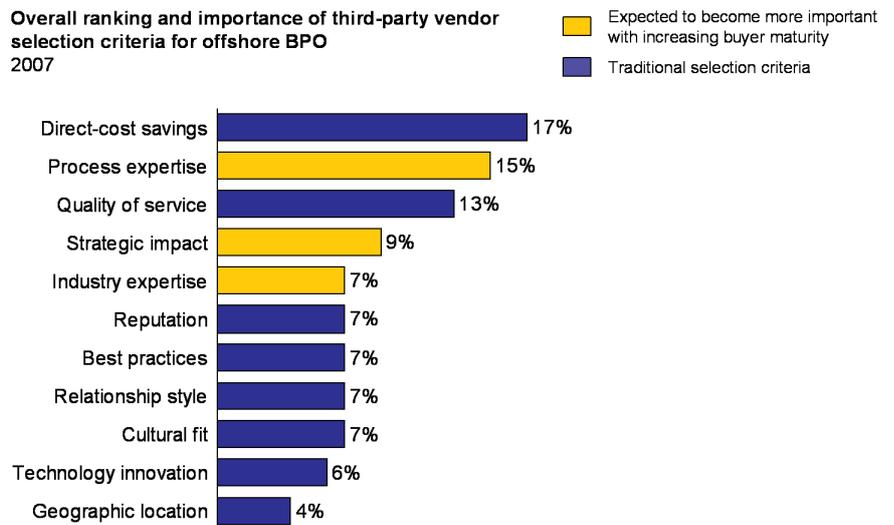
EXHIBIT 2

Evolving buyer expectations:
While direct cost saving continues to be important, process expertise, strategic impact, and domain expertise are becoming increasingly important for decision making

Source: Outsourcing Excellence Awards (2007) © Outsourcing Center

Evolving buyer needs; changing nature of demand. With increasing maturity, buyers want to drive greater benefits from offshore BPO arrangements than just cost and efficiency advantages. They are looking for impact from more effective partnering to drive optimization and transformation objectives. These changing expectations are currently reflected in buyers now including process expertise, industry expertise, and strategic impact as key supplier-selection criteria (see Exhibit 2).

Overall ranking and importance of third-party vendor selection criteria for offshore BPO 2007



In addition, buyers are no longer looking for suppliers to deliver just horizontal BPO services; increasingly they expect domain specialization and delivery of core vertical-specific services. Our analysis reveals that more than 50 percent of suppliers servicing Banking, Capital Markets, and Insurance verticals have developed credible vertical specialization during the past three years.

The geographic distribution of buyer demand is also changing. While U.S. companies have been the major buyers in the past, today buyers from the UK, Continental Europe and Asia Pacific are increasingly offshoring delivery of their business processes. There is also an increase in adoption of offshore BPO among mid-sized and small buyers.

Increasing competition for subscale undifferentiated players. Smaller, undifferentiated players are facing a lot of competition in the market and are now finding it difficult to grow. It is becoming difficult for these players to compete in the marketplace against larger players with new vertical-specific offerings and technologies. A sub-scale supplier delivering only horizontal BPO services, for example, is not able to compete effectively at the table when buyers are asking for domain-specific expertise and experience with vertical-specific clients.



Threats: supply-side constraints and non-sustainability of cost advantage. The rapidly increasing buy-side demand for resources is creating a marketplace where the supply of labor and infrastructure is constantly under stress.

While cost-arbitrage continues to be a significant driver of global sourcing for most buyers, the associated benefits will diminish over time because of changes in underlying factors. Adverse currency movements and wage inflation in destination geographies (e.g., India) are putting pressure on operating margins of suppliers. Compared to the U.S. dollar, the appreciation of other countries' currency is a trend that is likely to continue in the medium to long term. Inflationary pressures on operating costs are unlikely to ease, due to resource scarcity and overall economic growth. Therefore we are looking at a possible situation where the cost advantages of offshore BPO could diminish in the medium term (7-14 years) for many offshore locations.

Opportunities for new growth strategies

Against the backdrop of these dynamic changes in the marketplace, offshore BPO suppliers need to look at where new growth opportunities are and how they will be profitable and sustainable for the next five years. There are three key questions suppliers must ask themselves.

- 1. What are the defining trends of the offshore BPO market?** The trends may be about buyer adoption from a geographic or industry perspective, new technologies coming into the marketplace, and service deliver models (e.g., is the market moving away from captives and toward hybrid sourcing model, what are the pricing trends for offshore BPO deals).

The defining trends are those that a supplier needs to be able to cull out as the specific trends that are going to impact its business. We at Everest can help suppliers distill the actual trends that will make a difference to a particular supplier, compared to the other trends in the marketplace.

- 2. Where can we make a difference?** Any supplier, of course, cannot solve all buyer needs. The supplier needs to not only understand what the buyers are demanding but also needs to build a strategy around the buyers' business needs that the supplier thinks it has the capability to solve. For example, can the supplier solve a buyer's DSO (days sales outstanding) in an accounts receivable process, optimize a buyer's supply chain, provide analytics about a buyer's customers, or manage the customer experience?



3. How can we make a difference? There are two aspects to this answer. The supplier must first analyze its current competencies and capabilities (e.g., what are our strengths, what is the feedback we have received from our clients). The second aspect is determining the capabilities that the supplier thinks it can develop in the future. In other words, what can the supplier afford or how can it make trade-offs in investments in people, processes, and technologies to develop competencies for the future? Everest is experienced in helping suppliers understand the trade-offs and make these decisions.

Critical elements of strategic decision-making around growth strategies

After answering the three key questions above, a supplier needs to make decisions around the following three dimensions: operating model, delivery network, and talent strategy.

Operating model. Critical elements of decision making in this dimension include the following:

- **Capabilities** (e.g., domain and geography, onshore delivery, how to make account management and relationship management better).
- **Technology choices** (e.g., investing in enabling technologies versus platform; or alternatively not investing in developing own technology solutions)
- **Engagement models** (e.g., pricing, such as moving to an outcome-based pricing model; accountability and service levels the supplier is willing to accept)
- **Risk management** (e.g., hedging strategies to manage the supplier's foreign exchange exposure, financial risk associated adopting outcome-based pricing; legal, regulatory, and operational risks when operating in different global geographies or when transferring work to different delivery centers when the laws differ in the various geographies or differ regarding offshoring)
- **Efficiency** (i.e., supplier's internal initiatives around increasing productivity and utilization of its people, perhaps by serving different geographies in the same delivery center to increase utilization of assets in one center)

Delivery network. A lot of offshore locations now offer unique leverage points to a supplier, just as a particular location provides specific leverage points to a buyer. Suppliers need to be able to create "truly global" networks with service delivery capabilities in multiple offshore destinations.

As an example, a supplier currently in the Philippines might need to determine if it should establish a presence in Latin America to service Spanish markets,



go to Eastern Europe to serve the German-related language work coming in from Continental Europe, establish resources in Ireland to serve the UK market, or go to China to serve the Japanese and Korean markets. Where and how a supplier should build local delivery networks are critical parts of the overall decision-making.

Managing speed to market and the complexity of a large network of smaller centers is another area of decision-making. In India, for example, as the resources are exhausted in larger Tier-1 locations, suppliers need to be able to exploit smaller Tier-2 and Tier-3 locations. The available talent pool in these locations is smaller; thus, the supplier ends up with the complexities of managing smaller centers and reduced time to market in service delivery.

Talent strategy. The third dimension of decision-making is around how to source talent. These decisions include the following:

- **Pursuing Tier-2 locations** – Within India, for example, which Tier-2 or Tier-3 locations should a supplier exploit? Everest has been advocating the concept of Tier-2 locations developing a BPO hub around a particular industry or domain. So, as an example of a supplier's decisions around talent strategy, it might include whether it wants to be the first mover in a known location or be one of a group of suppliers in a BPO hub.
- **Rightskilling** – How can a supplier match the skills of its people to the job profile at hand? How can a supplier avoid overskilling a particular job profile? A supplier can, for example, take a complex job from a client and divide it up into a large number of simpler tasks and give it to people who are not as educated as the people who were previously doing the work and who are also less expensive.
- **Tapping alternate labor pools; training versus finishing** – How can a supplier go beyond tapping ready-to-absorb talent? For example, should it consider housewives, retired persons, or high school graduates and then train them?

Finally, after answering the three key questions, a supplier needs to develop a holistic strategy with details around the critical dimensions of the operating model, delivery network, and talent strategy.

Everest has a great deal of experience and insight in helping suppliers think through these kinds of strategies. If you would like to further explore these issues or other growth strategies, feel free to contact us.



About Everest Group

Everest Group (www.everestgrp.com) is a global consulting firm that assists corporations in developing and implementing leading-edge sourcing strategies including captive, outsourced, and shared services approaches. Everest helps companies create strategies and sourcing relationships that deliver total value – improving performance and results while managing the risks in such initiatives.

Since 1991, we have completed 300+ engagements, advising clients on complex sourcing issues in more than 30 key business processes worldwide. Our experience spans numerous Fortune 1000 clients in banking, insurance, retail, healthcare, telecom, media & entertainment, and hospitality sectors, among others.

Our breadth and depth of experience enables us to deliver expert analysis and strategic results. Our flexible, collaborative approach analyzes the specifics of each sourcing challenge. Throughout the process, we encourage collaboration between buyers and service providers to spark creativity and lay the groundwork for long-term outsourcing success. The result is a solution that recognizes the strengths, weaknesses, and strategic objectives of both parties.

Everest Group is headquartered in Dallas, Texas and has offices in Toronto, New York, London, Amsterdam, New Delhi, Melbourne, and Sydney.

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