

WHITE PAPER

Business Process Services: The Next Frontier

A look at key trends driving innovation in the BPS industry

In this report, we examine some of the key trends that are driving innovation in the business process services (BPS) industry, which is experiencing rapid growth.

We talk about the need to keep IT and process improvement at the heart of BPS and to avoid the short-term temptation of pursuing “your mess for less” solutions.

We examine in detail three major trends: the need to create joined-up processes across enterprise boundaries, the need to turn big data into actionable results, and the need to design services that enable clients to operate globally. We provide three case studies to illustrate these themes.

We also examine the choices to be made between standard and flexible solutions, and assess the right balance of risk in transformational solutions.

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Introducing the concept of BPS

BPS has in recent years been one of the fastest growing segments of the outsourcing market, and that trend is predicted to continue. Analyst firm Nelson Hall estimates compound annual global growth of 6.4 percent from 2012 to 2016, by which time the BPS global market will be worth \$433 billion.

So, it's important. But what actually is BPS? While there is no single definition in the market, the term has been used by various vendors to cover a wide range of services from "blue collar" activities, such as catering and driving, to "white collar" professional activities, such as HR and finance.

It can encompass both B2C and B2B processes, such as collections, as well as services provided to managers and employees, such as payroll. It will often include contact center activity, which can range from complex inbound customer calls to outbound telesales.

BPS can significantly improve business effectiveness while reducing operating costs, typically by more than 20 percent each year.

At CGI, we define BPS as the value propositions involved in assuming service responsibility for the process transactions of our clients.

Few vendors, least of all CGI, will aim to provide an exhaustive range of BPS offerings because of the breadth of skills and investment that would be required—specialization and subject matter expertise are important. By way of illustration, CGI's current 26 BPS value propositions are segmented into six key areas of competence:

CGI's BPS value proposition categories
<i>Customer service and billing</i>
<i>Payments</i>
<i>Enterprise services</i>
<i>Collections</i>
<i>Logistics</i>
<i>Document and data services</i>

CGI's services within each group are tailored to the specific needs and operating environments of the industries and clients we serve.

The essential role of IT for effective BPS

Many vendors with an IT heritage have in the past created BPS divisions defined more by what they aren't, rather than by what they are. Typically, such companies have defined BPS as a service or solution area that focuses on all the stuff that is non-IT.

BPS is also viewed as an area that is highly manual. This perception has been reinforced by some vendors within the industry that have focused on a "lift and shift" BPS approach—transferring client processes to low-cost offshore locations without delivering process improvements.

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This view is problematic in two respects. First, it tends to de-emphasize the vital role of IT and automation in a successful BPS value proposition. Second, it has created negative perceptions of the value that offshore resources can bring to the world of business processes.

Too often “lift and shift” has meant “your mess for less”—business process “solutions” where the only lever that is employed to make an attractive financial proposition for the client is wage arbitrage. Too little is done to improve the underlying business processes. In this context, it is not only the client who ends up disappointed; the vendor’s delivery teams end up very frustrated as well, leading to a vicious circle of disappointment and attrition.

CGI’s BPS value propositions blend the skills and price points of our onshore, nearshore and offshore professionals, and we are great believers in the enduring value-add of our offshore team. But, more fundamentally, we think it is essential to maximize the amount of innovation and automation that our BPS value propositions encompass. IT should be at the heart of BPS.

Historically, BPS offerings have tended to focus on improving the performance and cost base of single functions within a single enterprise; for example, the outsourcing of accounting.

Three big themes

We see three big themes playing out in today’s BPS market:

- The need for enterprises to transact effectively with other enterprises and/or consumers
- The need to turn big data into actionable results
- The need for enterprises to work globally

THE NEED FOR ENTERPRISES TO TRANSACT EFFECTIVELY WITH OTHER ENTERPRISES AND/OR CONSUMERS

Historically, BPS offerings have tended to focus on improving the performance and cost base of single functions within a single enterprise; for example, the outsourcing of accounting.

There have been examples of large-scale deals, where the scope covers multiple countries within a single enterprise, or multiple single functions within a single enterprise; for example, combinations of accounting and procurement.

Within these, there have been some examples of BPS vendors driving efficiencies that go beyond the boundaries of a single function, as in the creation of e-invoicing processes between the accounting function and suppliers.

Yet, as the focus of the BPS market has steadily extended beyond “back office” processes such as accounting and into the support of B2B and B2C business processes, vendors are faced with the challenge of providing services that genuinely transcend the organizational and system boundaries of their clients’ organizations.

That challenge can be made easier if the client works within a market where all participants are required to collaborate according to certain rules and procedures. The securities trading (stock) market is an example. There are many BPS vendors that enable their financial services clients to align and manage their processes in accordance with market procedures and to interface their systems with those of the market itself and other market participants.

Most of the business world does not work within such a single all-embracing set of market procedures. Yet most businesses still very much need to operate beyond their own boundaries and collaborate with other businesses in a “networked economy” to sell, manufacture, deliver and get paid for the services and products they provide to their end-customers.

How can BPS vendors address cross-enterprise processes when their typical contractual model is to work for one client, not multiple clients, within the same contract? The answer needs to start with the end-customer and understanding the constraints in the end-to-end chain of processes that currently limit the ability for the end-customer to receive fast service at the right price point. Then, we need to work backwards to diagnose the efficiency and profitability benefits for all collaborators in the end-to-end chain of processes and to create a case for change.

CASE STUDY 1

Fennia and its brokers now have less manual work, and it's easier for them to find the correct information and update it.

Fennia is a major insurance group headquartered in Finland. Brokers are a significant sales channel for Fennia.

Every week, thousands of paper documents were exchanged between Fennia and its brokers. This caused delay in signing up new customers and extensive administration costs for both Fennia and the brokers.

Fennia was asked by several of its brokers to provide an electronic communication channel to streamline the exchange of information and reduce costs.

CGI's answer was to deploy the following as a unified solution through its service integration bus:

- *Virtual print (a way to create documents for the web from existing print streams)*
- *Document management*
- *"Portal-in-a-box"*

We designed new end-to-end processes and configured our cloud-based technology platform to integrate with Fennia and the brokers. We also assumed service responsibility for ensuring transactions flowed effectively between the multiple parties.

Fennia and its brokers now have less manual work, and it's easier for them to find the correct information and update it. The new processes have also resulted in cost savings for Fennia through reduced manual labour, printing and mailing. The end-customer experience is vastly better than before. In addition, Fennia has received feedback that this is the most advanced service offered by insurance companies in

THE NEED TO TURN BIG DATA INTO ACTIONABLE RESULTS

You may have read the Fennia case study and thought, "That's all about IT. Where's the big BPS team?" There isn't one. Conceivably, we could have moved the manual work to a lower cost service center and sought to deliver lower cost services and achieve our margins by working our team hard. But, doing so would not have delivered a better service to the end-customer.

And, notably, any service center would need to be a fairly complex one in order to juggle the demands of multiple parties, as in this case. IT needed to be at the heart of this transformational business process solution for it to succeed.

Let's take a look at a different area of BPS — the audit and recovery of improper payments in the health care market. In the U.S. alone, nearly three trillion dollars in health insurance payments flow from insurers to providers every year. While most of these are straightforward reimbursements for services as agreed, a proportion should not have been paid in the first place and need to be recovered. How do we find these needles in haystacks and then ensure that there is a cost-effective business process to recover the payment?

There are multiple challenges in identifying and recovering improper payments. To give just three examples, there is a very high volume of unstructured data to review; claimants are not short of ingenuity in making improper claims; and regulators demand an environment where payments are made quickly with minimum hassle to claimants.

CASE STUDY 2

This case study relates to the health insurance sector, but the same challenge of turning data into results is faced by companies across a wide range of industries.

CGI provides claims audit and recovery services to multiple health insurers in the public and commercial sectors

At the heart of the service is an application through which we run the details of claims. The application is programmed with frequently updated business logic, which automatically identifies claims with unusual features.

It identifies, as an example, if there is a claim for two appendectomies on the same person, a medical impossibility, and initiates a business process workflow whereby a notice is sent to the improper claimant, leading to reimbursement for the insurer. Analysis gets translated into action.

There are much more complex instances, where the application identifies that a claim is probably (but not certainly) improper. This is then routed for review by an experienced physician or medical coding specialist, and the results of the review are then fed back into the system. This not only initiates an appropriate business process workflow, but is also used to update the business logic in the application for the audit of future claims. "False positives" (the identification and review of claims that turn out to be legitimate) are thus reduced and future review costs are kept under control.

Readers of this case study who are interested in a more detailed evaluation of how big data can be combined with business process workflow, and future trends in this area, can find more analysis in CGI's white paper, "The Power of Combining Big Data Analytics with Business Process Workflow."

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The truth is that big data is already being harnessed successfully in many organizations. It is being done best where innovation is always done best—in the context of a real business problem to fix, with smart people who can structure the necessary data logic and interpret its results, and a business process workflow which turns analytic results into business results.

THE NEED FOR ENTERPRISES TO WORK GLOBALLY

The third major emerging theme, and one that is very much driven by clients, is the need for BPS providers to support global processes and global ways of working.

Sometimes we can be tempted to think that the offshore service concept for BPS was a limited phenomenon, and that the tide in our industry is turning back to onshore. Like the Great Gatsby, we fantasize that, having gone from the East Coast to the West Coast in search of adventure and success, and then back to the East Coast to try to reclaim the past, there is an inevitable tide that will bring us back to where we started.

In such a fantasy, we forget that globalization in the way we deliver BPS needs to be seen in the light of the much bigger powers of globalization in the market we aim to serve. The significant buying power of consumers in developing economies and the worldwide distribution of resources means that our clients need us to support them in achieving their global ambitions.

For CGI, this ranges from the support we provide to the French luxury goods company LVMH, for whom Asia Pacific is a critical consumer market, to the support we provide Norwegian energy company Statoil to operate more effectively as a global company.

CASE STUDY 3

Statoil, based in Norway, is one of the world's largest upstream energy companies, and is also the world's largest offshore operator. It is headquartered in a mountainous country of five million people, where good lifestyles are accompanied by a high cost of living. Its language is spoken by few people outside of Norway. Its offshore oil and gas reserves are a finite resource, which will not support indefinitely the country's long-term future. Statoil has, of course, recognized this for many years and is active in exploration and drilling around the world.

Statoil's operational challenge has been how to work as a global company with standard company processes and procedures that will be effective in all locations where it operates. It realized that having a single, worldwide employee service desk, covering standard and complex level 1 support for finance, HR, procurement, facilities and IT, was a critical enabler for this.

CGI has worked with Statoil for a number of years to set up, run and continuously expand this service desk, which includes multimedia interaction with Statoil's employees in 37 countries. Interaction is available in both Norwegian and English from three CGI service centers supported by a single, worldwide process model.

Initially, we operated the Statoil employee service desk using multilingual resources in Stavanger, Norway. Over time, we have added English speaking teams in our service center in Bridgend, UK and then multilingual teams in our offshore center in Manila, Philippines. The service desk is in the process of being further enhanced with the development of CGI mobility solutions.

Because we operate globally, we are better able to support Statoil's desire to work globally. We continue to offer alternative ways to lower costs while maintaining the highest standards of service to Statoil employees at all times.

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The challenges ahead

BPS is still a young and relatively immature market. There are, without doubt, some exciting trends underway, a number of which we have described above. These trends are driving innovation and increased value for clients.

As a young industry, we are not immune to growing pains as well. The two most pervasive issues today are as follows:

- 1) Standardization versus flexibility
- 2) Risk and reward

STANDARDIZATION VERSUS FLEXIBILITY

It is a key principle of manufacturing that if you can design one model and sell it many times over, you can make good money. Alternatively, if the customer will pay, you can make good money with build-to-order services.

A typical dilemma for buyers in today's BPS world is that they are attracted by the relatively low price of the standard service, but want, for various reasons, unique features to be added. Hoping they can receive this desired customization for the standard price, they build a business case that enshrines the customization as a prerequisite.

They then hope to find a "client intimate" vendor that will take them on as a loss-leader and will not exploit them through subsequent change control. This is rarely a model for a successful, mutually profitable long-term partnership.

In many cases, there are good business process arguments for accepting standardization, but it is remarkable how often extraneous factors will drive the demand for flexibility.

This issue is being brought into focus by the rapid proliferation of software as a service (SaaS) models, which are in turn driving interest in platform-based business-process-as-a-service models.

The strong interest in SaaS models follows clear business logic. The buy-in seems to be especially prevalent in single process areas such as sales force management (mainly within small and medium sized enterprises). It's also prevalent in some aspects of recruitment and training administration—areas involving fairly standard processes where activity can ramp up and down quickly, and where interfaces with other systems in an enterprise are not going to be complex. The “pay for what you use,” “self-service,” and “plug and play” features of SaaS software are attractive in this context.

Software vendors will broaden the scope of SaaS applications over time (and major ERP vendors will hope to find a way to do that without entirely cannibalizing their perpetual licence revenues). What does this mean for the BPS industry?

The answer is not yet totally clear. In many ways, the territory that SaaS currently occupies is not a major BPS area of activity today. It is not especially attractive for a BPS vendor to try to put a service wrapper around an SaaS solution, which has been bought for its low cost of ownership.

A vendor attempting to do this might have to work at the messy interface points where the SaaS solution does not quite join up with the organization's core processes, and where it is a “necessary evil” operating outside of the compelling business case that introduced the SaaS software. But BPS is more likely to gravitate towards the more complex needs of an enterprise where an SaaS model is not sufficient and where there is a compelling need for a more comprehensive solution to meet business needs.

RISK AND REWARD

Many BPS vendors like to portray their value propositions as transformational. A subset of those value propositions will justify the transformation badge.

Transformation, however, can rarely be achieved by the vendor alone. BPS solutions are implemented within the context of the overall stream of processes within the client's organization. Genuine transformation will require change not only in the processes for which the vendor assumes responsibility, but usually also within the adjoining processes for which the client retains responsibility. To change one, but not the other, risks a dysfunctional service that is characterized by bottlenecks and waste.

In this context, the client and vendor need to sit down, design and commit to an end-to-end process vision, and agree on which aspects they will take responsibility and ownership for driving change, with agreed and transparent milestones and resourcing.

What happens if, midway through the implementation journey, the vendor has a problem that causes delay to the achievement of the client's business case? There will probably be contractual clauses that penalize the vendor, and yet make it commercially unattractive for it to stop work. Having spent significant money bidding to win the engagement, the vendor will also feel a strong urge to recoup the investment.

But what happens if the problem is on the client side, and it's because of the client's delay that its part of the bargain cannot be fulfilled in line with the business plan? There may be remedies that are available through change control—at further detriment to the client's business case. However, there is also the temptation for the client to say to the vendor, “This was your great idea. Your solution promised the earth, and if we are going to rescue the program then we need you, Mr. Vendor, to fund the shortfall in my business case.”

Ultimately, this is about the trade-off between risk and reward and about intelligent dialogue in the contracting process. What the example shows is that, especially with

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“transformational” value propositions, the risk to the program’s success can lie as much with what the client does as with what the vendor does.

This sort of dilemma has arisen because BPS has developed rapidly, and because vendors, analysts and clients have extended their appetites and ambitions for what can be achievable. Going forward, we can expect the market to continue to mature in its view of the level of risk that equates to good business and to develop contractual frameworks that get the balance right.

Conclusion

BPS is a rapidly growing market that—as illustrated by the case studies presented —is delivering real value to clients. It can be applied across a wide spectrum of business functions and can significantly improve business effectiveness while reducing operating costs, typically by over 20% each year. It is at its most powerful when it is closely aligned with technology.

The trends in the market today—whether they relate to the challenge of joining up processes across enterprise boundaries, turning big data into actionable results, or helping organizations to thrive in a global market—are all driving innovation and growth. With growth comes the challenge of going for standard or flexible services and of getting the right balance of risk and reward.

In the end, the BPS industry will be judged by the value it brings to its clients. We have enjoyed rapid growth in an uncertain world. If we can keep innovating, while ensuring we get the simple things right, then as an industry we can look forward to a very promising future.

ABOUT THE AUTHOR

Chris Sutton is vice president of CGI’s global BPS practice. Based in London, UK, Mr. Sutton has 15 years of BPS experience gained across North America, Europe and the Asia Pacific. He holds an MA in Literae Humaniores from Oxford University, is a Fellow of the Institute of Chartered Accountants, and is a Six Sigma black belt.

To discuss in more detail the topics addressed in this white paper, please contact CGI’s global BPS group at info@cgi.com.