

# Value-Based BPO in a Resurgent Economy

## Key Findings

### EXECUTIVE TAKE-AWAYS

- Global billion-dollar businesses see business process outsourcing (BPO) as critical to their business models
- Economic factors have made cost control a key priority for many businesses, and BPO fills that role
- Companies are evaluating BPO's success on a number of value-based metrics, not just bottom-line savings
- The nature of the client-BPO relationship is becoming increasingly strategic

### OVERVIEW

Forbes Insights, in association with Infosys, surveyed more than 200 top-level and C-suite executives at \$1 billion-plus multinational companies to gain an understanding of how they are evaluating the risks and benefits of business process outsourcing. In particular, the goal of the survey was to see how these executives viewed BPO in the current post-recessionary economy, and whether they are taking a more value-based approach.

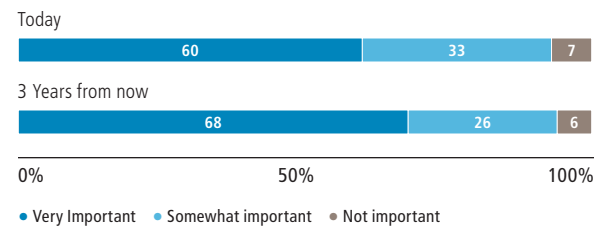
Based on the survey, it is clear that executives' perception of BPO is changing. While BPO is still seen as a vehicle for reducing costs, senior executives are more likely than ever to look beyond simple bottom-line savings. They are evaluating a BPO project's success based on the measurable, long-term business value it provides in areas such as higher productivity, improved competitive agility, and enhanced customer service. In fact, more than six in 10 executives believe BPO currently plays a very important role in supporting their business models, and that figure will grow over the next three years.

In addition, companies expect the nature of their relationships with their BPO providers to evolve. While many still view their BPO providers as tactical partners, four out of 10 executives now think of BPO vendors as strategic partners. And most executives expect the relationship to become more strategic in the near future, a trend most pronounced at companies that think of their BPO efforts as "world class."

### BPO PLAYS A CRITICAL ROLE IN EVOLVING BUSINESS MODELS

Executives surveyed recognize the critical function BPO

**FIGURE 1:** How important a role does BPO play in supporting your company's business model?



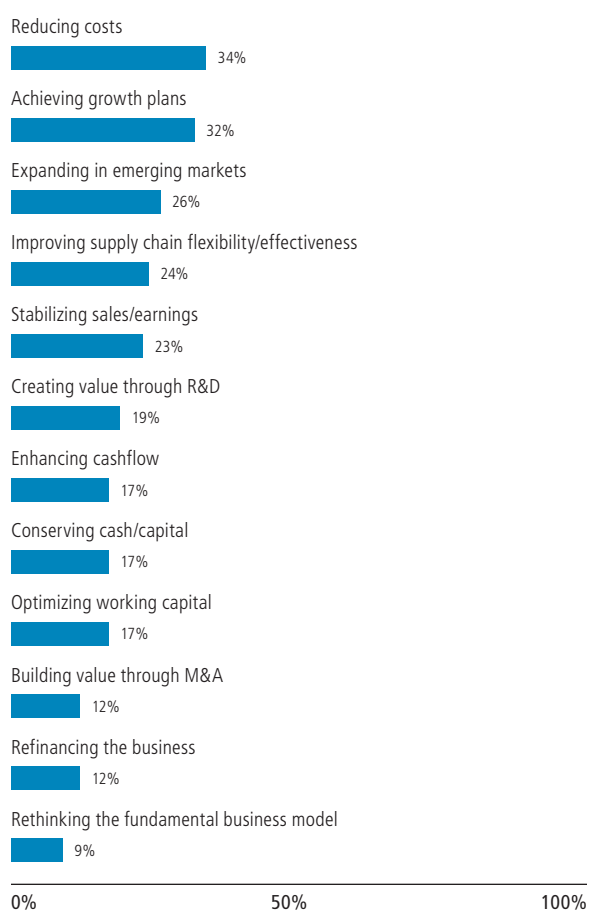
plays in supporting their businesses. Six of 10 respondents said BPO currently plays a very important role in supporting their business model, and another third said that BPO's role was somewhat important. (Fig. 1) Looking ahead three years, fully 68% of executives believe BPO's role will be very important.

### WITH COST CONTROL A KEY PRIORITY, BPO FILLS THAT ROLE

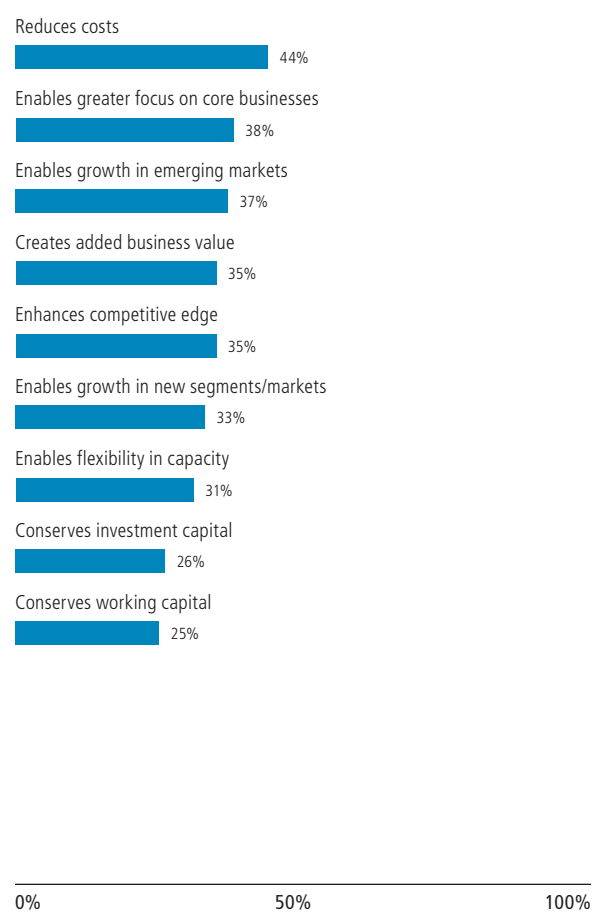
Having been buffeted by the rocky global economy, large multinationals are still focused on keeping their costs in check, even as their growth and expansion plans begin to re-emerge.

Asked to choose their top business priorities for the next 12 months, executives turned first to reducing costs (34%). (Fig. 2) But this was followed by "achieving growth plans" (32%), "expanding in emerging markets" (26%), improving supply chain flexibility and effectiveness (24%).

**FIGURE 2:** Over the next 12 months, what are the top priorities for your business?



**FIGURE 3:** Why does your organization use BPO?



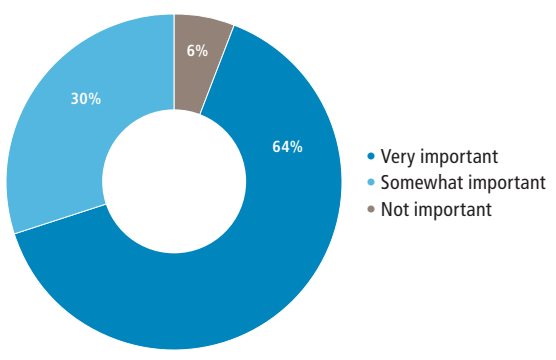
Interestingly, these priorities align quite closely to the reasons executives indicate their organizations turn to BPO. Again, reducing costs (44%) is the top reason, followed by “enables greater focus on core businesses” (38%), enables growth in emerging markets (37%), and “creates added business value” (35%). (Fig. 3)

**BPO’S EFFECTIVENESS IS NO LONGER A BOTTOM LINE MEASUREMENT**

In the past, BPO was seen primarily as a cost-control strategy with relatively short-term objectives. Today, many organizations are looking to their BPO suppliers to provide other value in addition to cost control.

Nearly two-thirds of respondents said they believe it is very important for their BPO relationships to be value-based—meaning it encompasses a range of both tangible and intangible objectives such as free cash flow, market penetration, and customer satisfaction. (Fig. 4)

**FIGURE 4:** BPO value metrics encompass a range of both tangible and intangible business objectives such as free cash flow, market penetration and customer satisfaction. Now and 3 years from now, how important is it that your BPO relationships are value-based?



In fact, a number of business objectives—beyond simply reducing and rationalizing costs—have a role in executives’ decisions to use BPO. (Fig. 5)

**BPO PROVIDERS WILL BECOME MORE STRATEGIC**

As value-based metrics become more important in defining the BPO relationship, companies increasingly are viewing their BPO vendors as strategic partners, not just vendors.

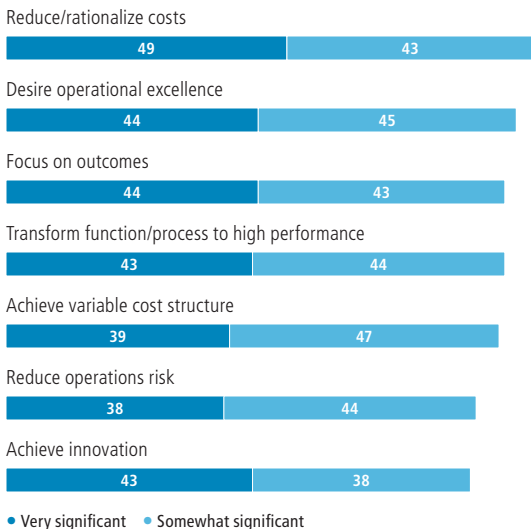
Asked to define the benefits of BPO, executives were evenly split between the strategic (45%) and the tactical (43%). (Fig. 6)

Yet the needle is moving away from a purely tactical relationship. More than half of executives expect the relationship between BPO providers and their clients to become more strategic. (Fig. 7)

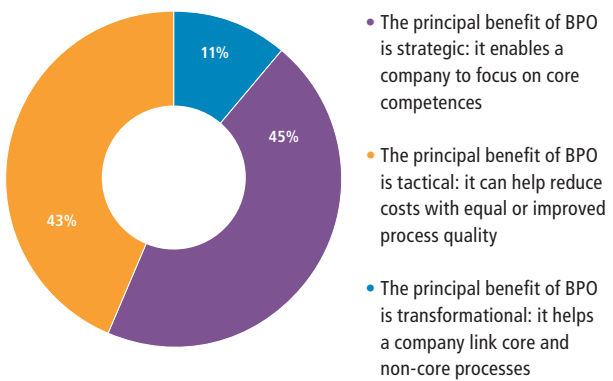
This increasingly strategic relationship is mirrored in the ways executives view BPO’s role in their companies’ performance and success. (Fig. 8) Executives overwhelmingly agreed that:

- BPO providers can play a crucial role in redefining their business model
- BPO providers should be evaluated on overall client performance as much as they are on the performance of outsourced processes
- Vendors who provide both technology and business process transformation are more strategic and add more business value than pure-play BPO players
- A company’s ability to manage BPO relationships is critical to its long-term success

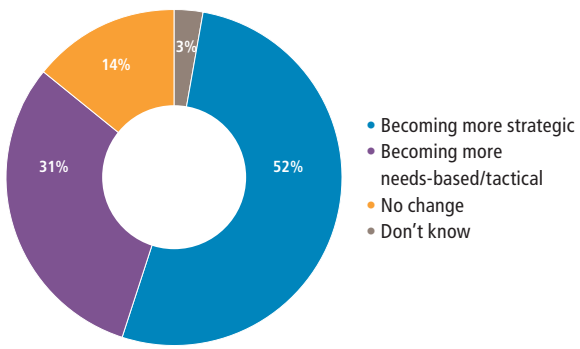
**FIGURE 5:** To what extent are the following business objectives/actions influencing your decisions to use BPO?



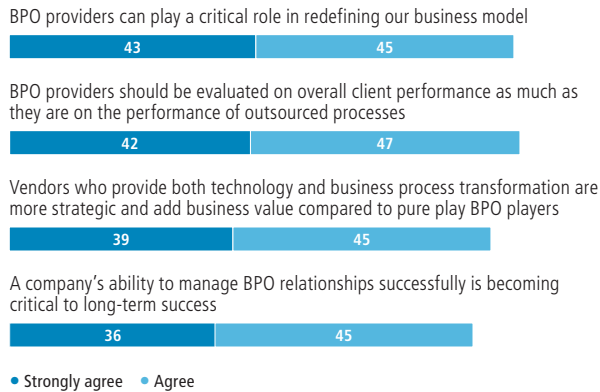
**FIGURE 6:** Which of the following statements most closely represents your views on the potential benefits of BPO?



**FIGURE 7:** In your view, how, if at all, is the nature of the relationship between a business process outsourcing provider and their client changing?



**FIGURE 8:** Please rate your agreement with the following statements.



**PARTNERSHIP LETS BPO PROVIDERS EXCEED EXPECTATIONS**

As is often the case in outsourced business relationships, the success of the BPO-client relationship all comes down to expectations. Certainly, much of what a client expects of its BPO provider is spelled out in its contracts and service-level agreements. So it is hardly a surprise that executives have clear-cut performance requirements for their BPO vendors.

Yet nearly 30% of the executives surveyed said their BPO providers' performance exceeded their expectations. (Fig. 9)

It's equally as enlightening to see what a BPO provider did in cases when the performance was higher than expected. It's no surprise that this may occur when the provider delivers more than the performance metrics call for in terms of price, timing or overall performance. (Fig. 10) But the top reason? Nearly half of the executives who said their BPO provider exceeded expectations noted that it was because the provider was "more of a partner than expected."

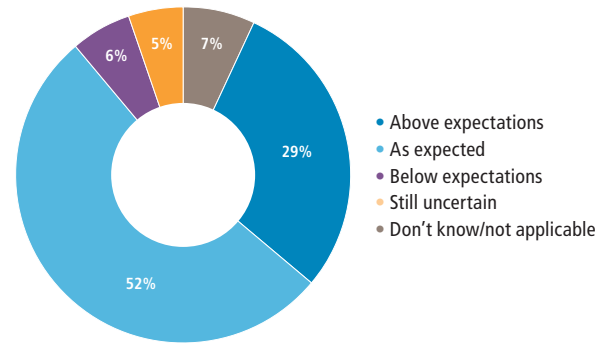
**METHODOLOGY**

The information of this brief is based on the results of exclusive survey conducted by Forbes Insights, in association with Infosys, in July 2010. Forbes Insights surveyed 203 executives at large global businesses. 65% of respondents held the title of CEO or other C-level executive; 16% identified themselves as board members; and the remaining 19% were senior vice-presidents, vice-presidents or directors.

All companies had annual revenues of at least \$1 billion—18% had revenues of more than \$10 billion; 33% had revenues of between \$5 billion and \$10 billion; and the remainder had revenues of between \$1 billion and \$4.9 billion. They represented a range of industries, including manufacturing (31%), financial services (15%), insurance (8%) telecom (7%), retail (7%), and others.

Geographically, 45% of respondents were located in the U.S., 25% were from the U.K., 15% were from elsewhere in Europe/Middle East/Africa, and 15% were from the Asia/Pacific region.

**FIGURE 9:** In general, how would you describe the performance of your outsourced business functions/processes?



**FIGURE 10:** Why did these activities exceed expectations?

