

BUSINESS SERVICES & THE CLOUD

# A Winning Combination for BPO and Captive Shared Services for Non-IT Functions?

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**Significant opportunities exist to move business processes to the Cloud**

The seismic technological change promised by the advent of Cloud Computing will not affect the IT department alone. Significant opportunities exist to move business processes to the Cloud, as well. What benefits can clients, service providers and investors really expect from this new service paradigm? And what impact will the Cloud have on the BPO service provider market?

Very similar questions were asked more than a decade ago, when the market first began to speculate on how the Internet would affect business processes and, specifically, whether it would make the model of centralized Shared Services Centers redundant? Instead, the idea of a Virtual Shared Service Center was born, in which support function staffs remain in their offices but work together Online in a standardized way under one organization.

Initially, the market overestimated the impact the Internet would have on the Shared Services model, not dissimilar from the general Internet hype which resulted in the inflating of the dot-com bubble and its subsequent popping in early 2000. Despite this the Internet had — and continues to have — a significant impact on business support functions. The quality and efficiency of Shared Services Centers have significantly improved through Online self-service and an increasing degree of automated interaction between companies and their suppliers and customers. By contrast, only a few Virtual Shared Services have been implemented.

Alongside mobile devices and social media Cloud Computing represents the next step in the evolution of technology. This paper's objective is to analyze the real opportunities it offers organizations and providers to rethink non-IT support functions, applications and services.

## IT CLOUD – WHAT IS IT AND WHAT ARE THE VALUE DRIVERS?

The IT Cloud typically involves the online provision of dynamically scalable and often virtualized information technology resources, such as common business applications with the software and data stored on hosted servers. These include:

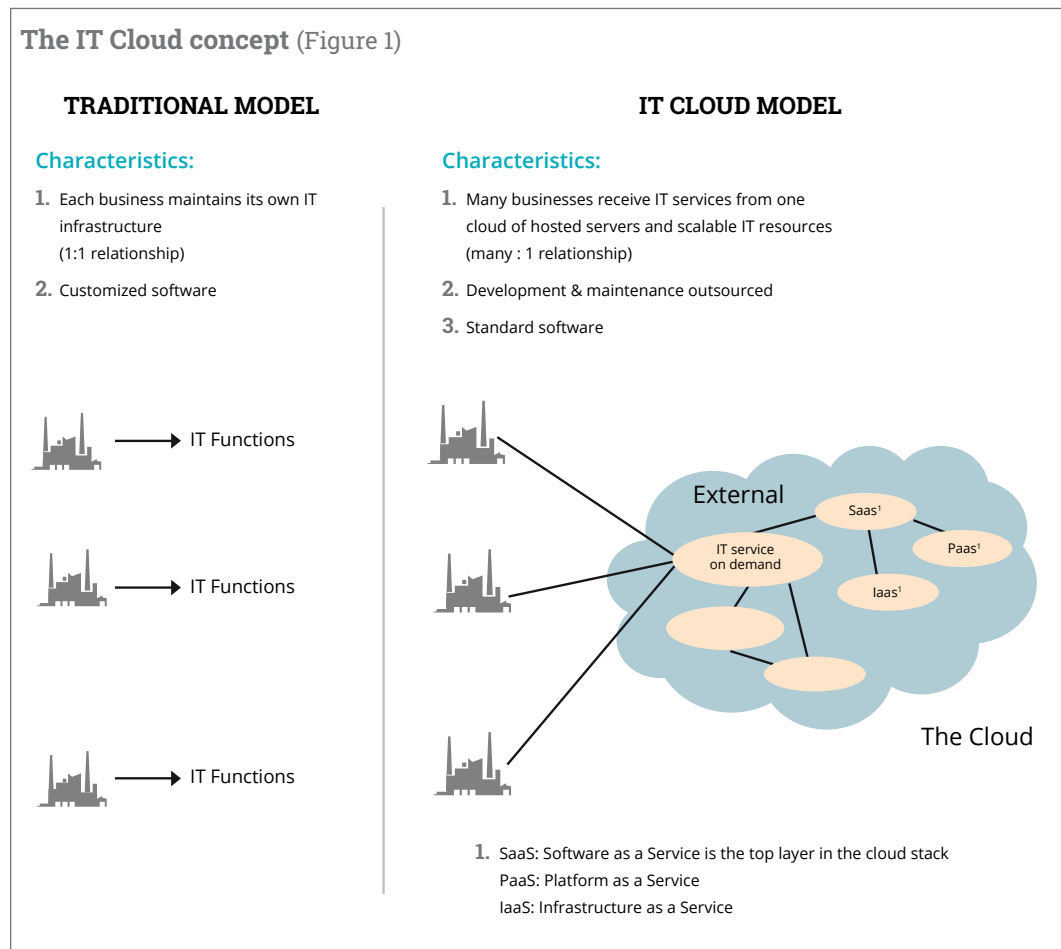
1. SaaS: Software as a Service
2. PaaS: Platform as a Service
3. IaaS: Infrastructure as a Service

Most of us have already worked with cloud applications (SaaS) such as Picasa from Google or iTunes from Apple, probably without having recognized the use of SaaS (in these cases, free of charge to the user).



The Cloud Computing model provides a multi-client provision of IT infrastructure and applications.

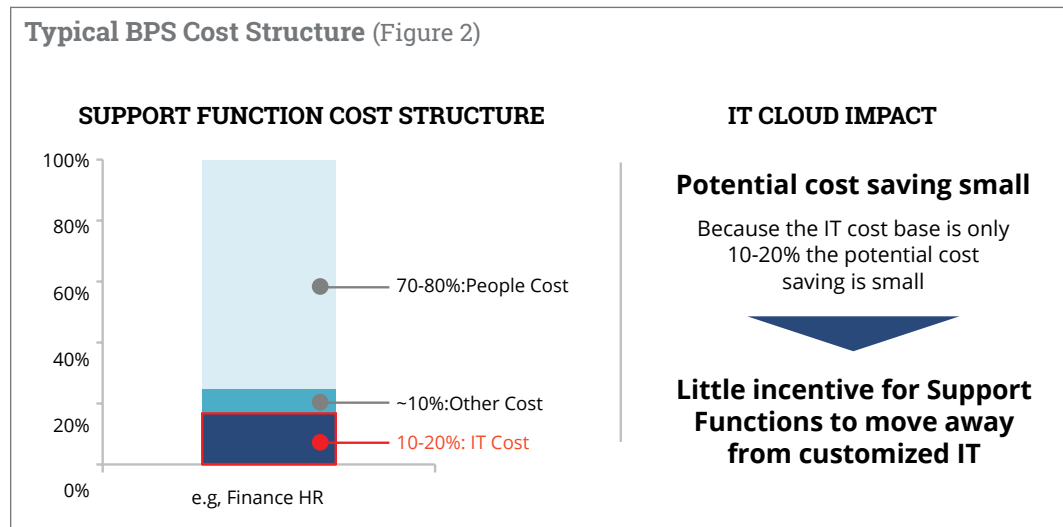
As opposed to the traditional model in which every company has its own IT infrastructure and application packages (*Figure 1, left*), the Cloud Computing model provides a multi-client provision of IT infrastructure and applications (*Figure 1, right*).



## IT cost saving opportunities for non-IT functions are small

The value drivers offered through the Cloud are lower costs through economies of scale, a higher utilization of resources and a more efficient use of expert knowledge. As organizations have looked to cut their IT costs, they have increasingly turned to external providers that can host standard applications on their behalf. The impact on other support functions to date is limited.

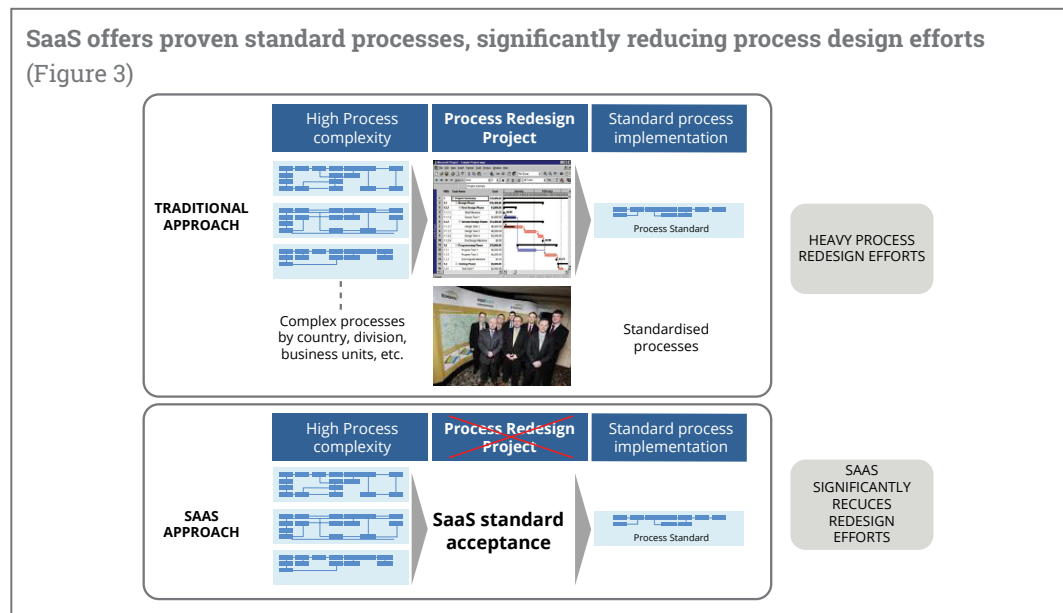
With an IT cost base for support functions of around 10-20%, the potential cost saving is too small to incentivize support functions to move away from their customized applications to less convenient standard software (Figure 2).



SaaS can help to accelerate the process standardization.

## Process improvement saving opportunities are significant

SaaS can help to accelerate process standardization. Support functions often suffer from huge service and process variation and a poor adaptation of process best practices.



Take a company with various expensive Travel & Expense processes at different sites and the objective to achieve an efficient and standardized Travel & Expense service. The traditional process re-engineering approach requires significant design work. By using SaaS, a company can reduce the redesign efforts significantly to the configuration of some predefined parameters provided by the solution (Figure 3).

**SaaS solutions are mature only for less integrated processes, attractive for small and midsize companies**

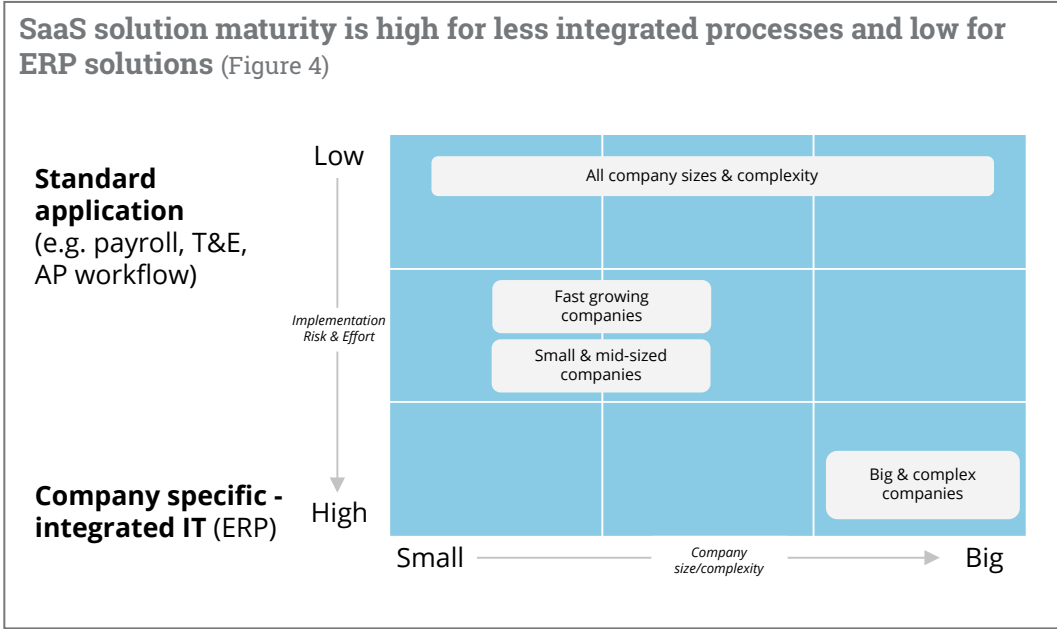


The ERP space is a significant opportunity, and SaaS providers are aggressively chasing it.

Given the availability of SaaS solutions in the market for less integrated processes such as Payroll, T&E or Accounts Payable, the benefits of Cloud Computing can be gained by any support function size and complexity. In addition, enabling technologies such as scanning, workflow or e-invoicing can be good candidates for SaaS.

For more integrated processes, there are — as yet — no mature SaaS solutions in the marketplace that have the capability to replace customized ERP systems. However, the ERP space is a significant opportunity, and SaaS providers are aggressively chasing it.

In the meantime, small and mid-size businesses may be more willing than big and complex companies to sacrifice their customizations for the sake of a more flexible and cheaper on-demand SaaS solution (Figure 4).



CIOs, together with the support function leaders, need to identify application areas which could follow a standardized approach through SaaS versus those that need to remain customized.

In conclusion, we see rather limited IT-cost saving potentials through the IT Cloud for non-IT support functions. However, SaaS may present an opportunity to accelerate the implementation of proven and more efficient standard processes at much lower cost.

## Risks and barriers to overcome for SaaS

SaaS providers will have to develop their Cloud Computing applications in a way that allows for regulatory- and industry-specific configurations. We believe that the market for SaaS is rapidly developing and that there will come a time when clients will have the ability to configure (though not customize) ERP services through a Cloud-based SaaS offering instead of having to buy an integrated software package.



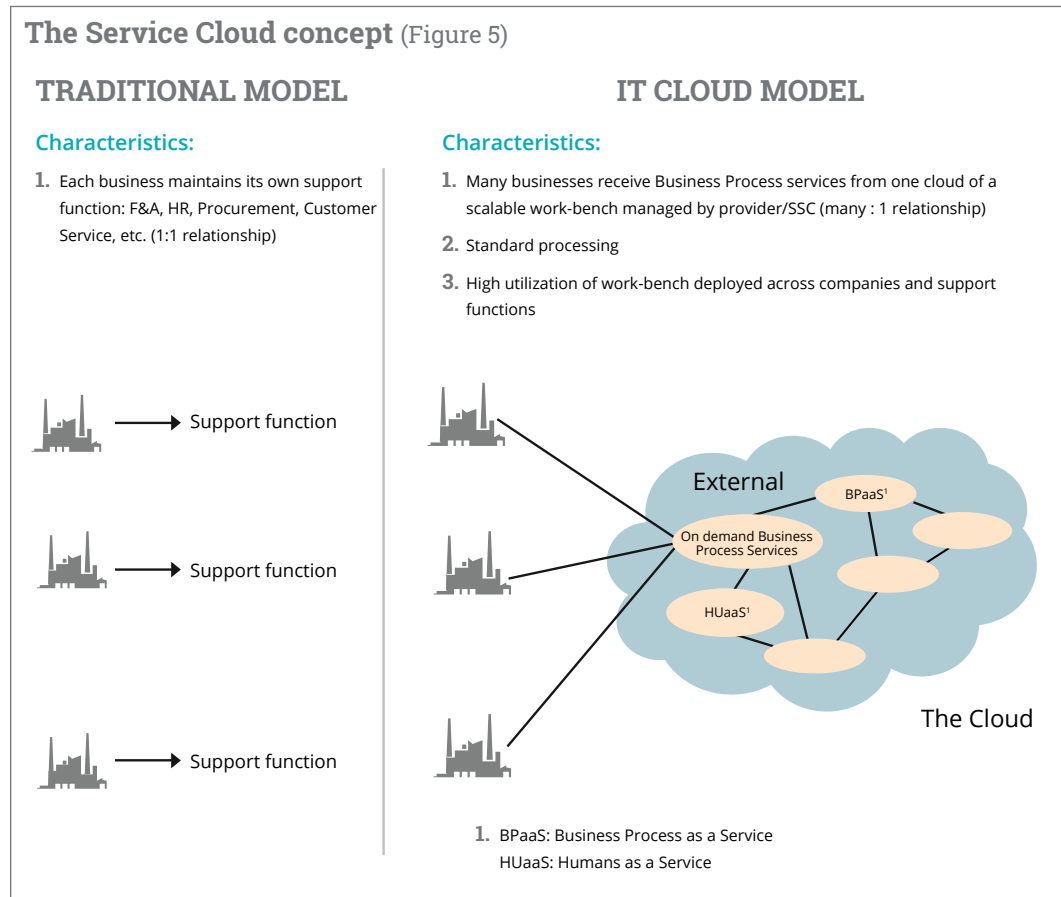
Service Cloud follows the same concept as the IT Cloud (Figure 1) but represents the human part of the processing work and service delivery.

## THE SERVICE CLOUD IS THE HUMAN SIDE OF CLOUD COMPUTING

The Service Cloud follows the same concept as the IT Cloud (Figure 1) but represents the human part of the processing work and service delivery. These include:

1. BPaaS: Business Process as a Service.
2. HUaaS: Humans as a Service or “Crowdsourcing”.

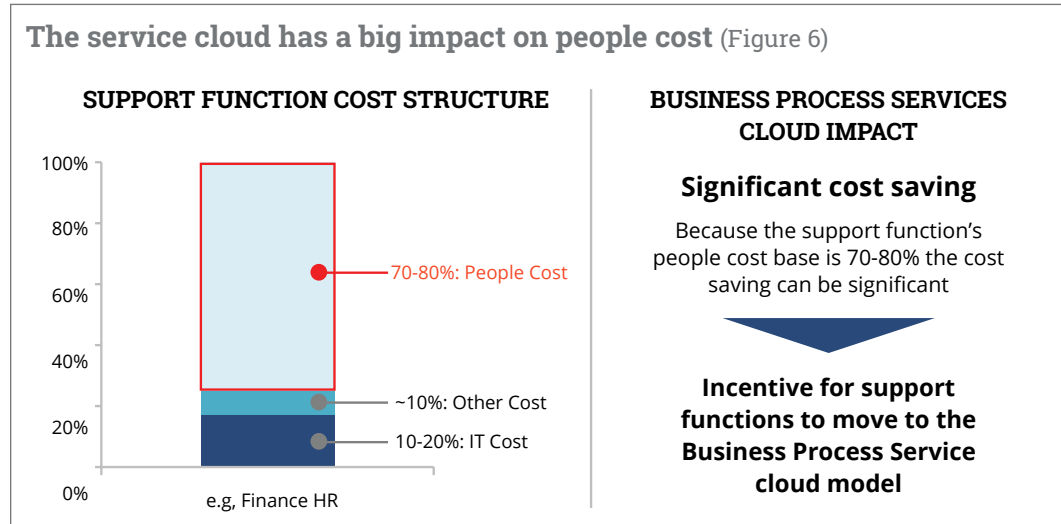
Today each company has its own support functions, either allocated across many locations, consolidated in a captive Shared Services Center or covered by a one-to-one outsourcing relationship (Figure 5, left). With Cloud Computing, companies receive services on demand from providers with a processing workbench, which can be deployed across clients and different support functions (Figure 5, right).



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## People cost saving opportunities for non-IT functions are significant

With people costs of about 70-80% of the total support function cost, the Service Cloud is by far the biggest cloud opportunity for non-IT support functions (*Figure 6*).



The value drivers of BPaaS are standardization and economies of scale, consolidation and cost of labor. Whereas traditional Captive Shared Services Centre or BPO relationships already leverage these value drivers, BPaaS can achieve even higher leverage of standardization and economies of scale.

### Standardization and Scalability through BPaaS

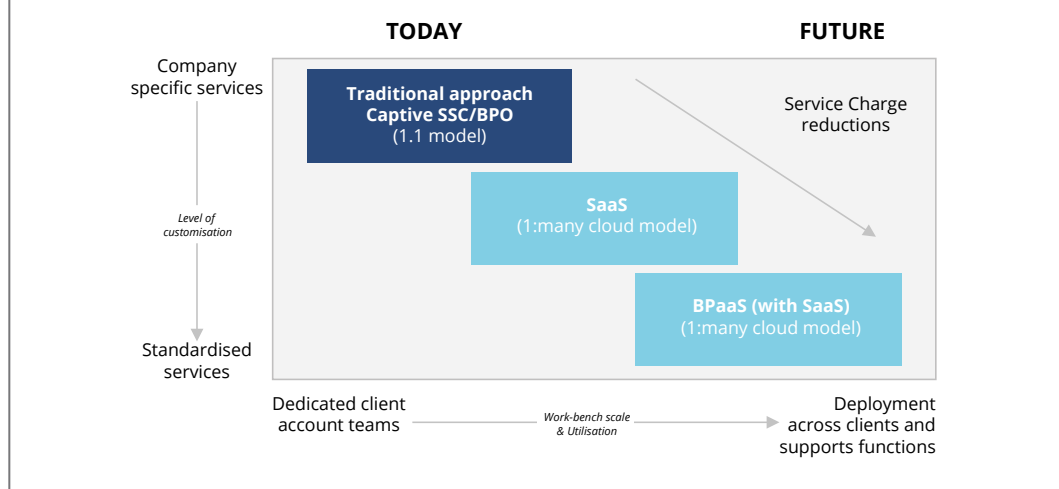
In a multi-client environment, service providers are able to achieve a higher utilization by balancing out clients' differing timelines and work peaks.

Greater scale justifies higher investments in simplification and automation. The division of labor between specialized teams working on standardized processes increases efficiency.

Prerequisites for BPaaS are the acceptance of standard processes and services and permission from clients for a multi-client workbench even across support functions. Today, most clients expect full dedication of the provider staff to their account and are very concerned about data confidentiality.

By addressing these concerns and ensuring sufficient data protection, providers could change the client's perspectives. In addition, offering services at different price points might move clients to rethink their paradigms. For example, services delivered by a multi-client team working across support functions could be offered at a lower price than service delivery from a dedicated client account team (*Figure 7*).

**Lower charges are achievable by accepting process standards and multi-client delivery teams working across support functions (Figure 7)**



Currently we see spot solutions of the Service Cloud in isolated areas such as T&E or Payroll, often in combination with the associated SaaS. The opportunity is much bigger.

**“Humans as a Service” will provide further saving opportunities**

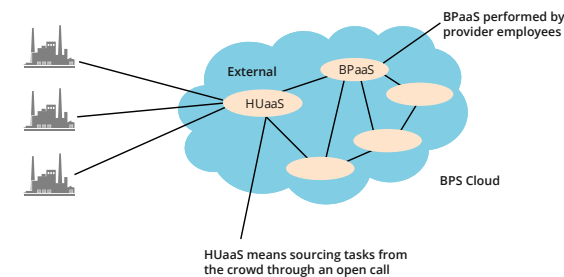
Humans as a Service (HUaaS) – also known as crowdsourcing – is another promising opportunity in the Cloud. HUaaS is the act of outsourcing tasks that are traditionally performed by an employee or contractor to a large group of people or community through an open call. For instance, a company will invite the public to help it capture, systematize or analyze large amounts of data. A good example of this is “Mechanical Turk” from Amazon (Figure 8).



**Crowdsourcing - is another promising opportunity in the Cloud.**

**HUaaS – Humans as a Service (Figure 8)**

**WHAT IS IT .....?**



**STATUS**

Not yet seen

**OPPORTUNITY**

Increase savings beyond off-shoring rates by using the public (e.g. in countries of high unemployment).

**PREREQUISITES**

1. Data protection
2. Qualification of public cloud
3. Simplification of tasks
4. Compliance





HUaaS is an opportunity for service providers or captive Shared Services Centers to increase savings beyond even off-shoring rates by using the public to provide simple transactional work. To our knowledge this concept has not yet been adopted and proven by companies, BPO providers or Captive Shared Services Centers.

**Risks and barriers to the Service Cloud**

There are some barriers to overcome to generate greater benefits from the Service Cloud.

For the Business Process as a Service (BPaaS) concept to work, organizations will have to accept more standard and multi-client service delivery, while service providers will need to generate and share the benefits, increase the capabilities of their workbench and, most importantly, solve the data security challenges (Figure 9).

<b>Barriers to overcome to move more services to the Business Services Cloud</b> (Figure 9)	
<p><b>Current status of support functions</b></p> <p><b>Traditional model without cloud</b></p> <ol style="list-style-type: none"> <li>1:1 relationship</li> <li>Captive SSC or BPO</li> </ol> <p><b>Cloud spot solutions</b></p> <ol style="list-style-type: none"> <li>Only for standard tasks such as</li> <li>Travel &amp; Expenses</li> <li>Payroll</li> <li>Accounts Payables</li> </ol> <p><b>Private Clouds</b></p> <ol style="list-style-type: none"> <li>Business Process Services platforms within companies</li> </ol>	<p><b>Barriers to overcome to move more services to the cloud</b></p> <ol style="list-style-type: none"> <li>Accept more standard services</li> <li>Accept that provider work-bench is deployed across clients</li> <li>Make standard services significantly cheaper</li> <li>Increase functionality/capability in solutions</li> <li>Resolve data security/reliability issues</li> </ol>



**Key barrier to overcome for the use of the HUaaS concept is data protection**

The key barrier to overcome for the use of the HUaaS concept is data protection, e.g. through security policies, technological data encryption or other security measures that will ensure that the public complies with regulatory and company policies. Another requirement is the simplification of work steps so that tasks are easy and clear for the crowd to understand.

**CHANGES TO THE SERVICE PROVIDER LANDSCAPE**

**The Service Cloud will become the key offering in the future**

Because of the compelling benefits the Service Cloud can offer, we believe that service providers will have to develop and offer these capabilities to remain competitive in the future. Traditional BPO providers with dedicated account teams will not be able to achieve the economies of scale of BPaaS providers and will not be able to compete with Service Cloud providers in the long term. Some BPO providers are actively working to move from a pricing model based on FTEs to one based on transactions– but still within a 1:1 client account relationship.

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## Integrated SaaS & BPaaS providers will have a competitive advantage

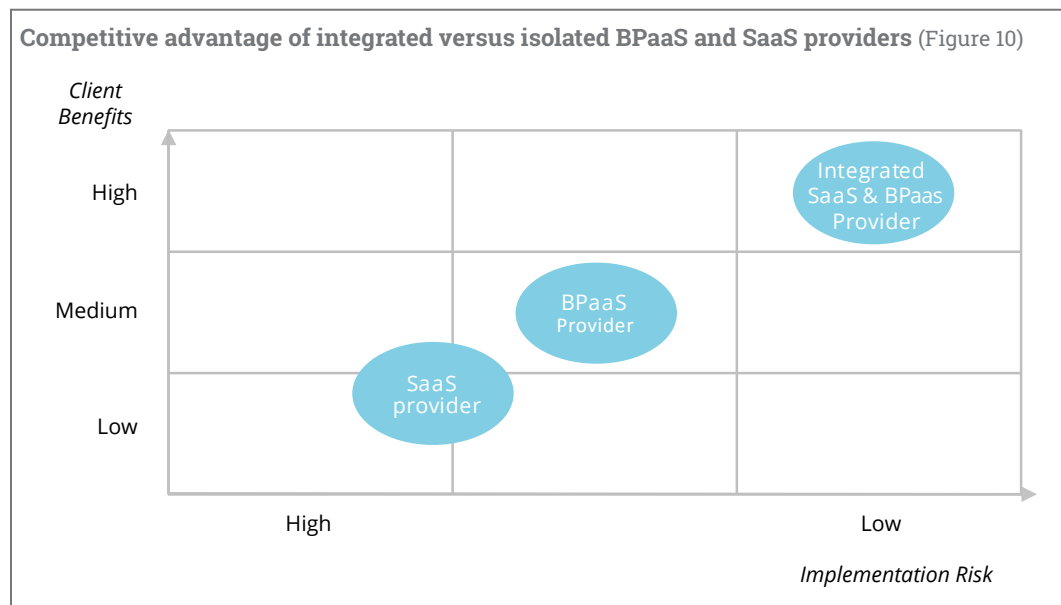
We believe that integrated BPaaS/SaaS providers will have a competitive advantage over pure plays because clients will always consider risks and benefits when selecting a provider for the service delivery.



BPaaS providers are strong in process and change management while SaaS providers are strong in application development.

BPaaS providers are strong in process and change management while SaaS providers are strong in application development. The combination of the two mitigates the implementation risk much better than when they are offered in isolation. Typical implementation risks include the non-acceptance of a standardized software and process in local support functions due to local regulatory or business influences or a complex local IT landscape supporting the existing process. Integrated BPaaS providers can mitigate these risks as they understand the barriers from a processing standpoint and are likely to have overcome them already with other clients. They bring both the processing expertise that helps the client to meet all regulatory and country requirements and the software to support the process in the most simplified and automated way. Clients will find this mix very appealing.

From a benefit point of view, integrated providers will be able to offer more attractive deals such as cross-selling discounts and packages. Unlike the BPaaS providers, they are able to look at the entire set of benefits of a deal and will therefore find it easier to compete.



Integrated BPaaS and SaaS providers will be able to offer higher benefits at lower implementation risks. As a result, SaaS providers without BPaaS capabilities are not likely to see the same growth opportunities as integrated providers (Figure 10).



Integrated BPaaS and SaaS providers will be able to offer higher benefits at lower implementation risks.



**If service providers are not working on a strategy to develop integrated SaaS and BPaaS cloud solutions now, they will lose the competitive race.**

## CONCLUSION

The benefits that clients, service providers and investors can expect from Cloud Computing are significant. The market will continue to reveal the inherent opportunities of this new service paradigm.

It is true that it takes time and effort on the part of both clients and service providers to get to a point where they can properly realize the value the Cloud concept can provide. It is also true that if service providers are not working on a strategy to develop integrated SaaS and BPaaS cloud solutions now, they will lose the competitive race. The benefits for clients are just too compelling. The ability to have both the flexibility of paying for services and the associated software on demand only, coupled with the standardization of services leading to further economies of scale and lower prices, will convince clients to move to integrated service providers. The market needs to be ready.

Service provider offerings have in many ways become a commodity. The cloud gives BPO providers the opportunity to improve their offering and lead the industry into a new way of service provision.

We will continue to watch, with interest, the development of the Cloud services and its impact on non-IT support functions.

## ABOUT THE AUTHOR

### **BUSINESS SERVICES & THE CLOUD**

#### **A Winning Combination for BPO and Captive Shared Services for Non-IT Functions?**

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Stefan works with enterprises around world to improve their business administrative services. He has more than 20 years of experience transforming support functions including F&A, HR and procurement. Stefan has led pan-European and global projects that involved strategic assessments, benchmarking and organization and process redesign and has developed new service operating models, such as shared services, outsourcing and multi-functional Global Business Services. He has negotiated multiple BPO contracts and advises clients on post-contract service governance. Stefan's experience spans the healthcare, utilities, transport and consumer goods industries. He has a degree in chemical engineering, a Ph.D. in economics and speaks both German and English.



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