



THE RETAIL BPO MARKET LANDSCAPE AND SERVICE PROVIDER FORMGUIDE

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Executive Summary

The retail industry has been experiencing many fundamental changes over the last three decades, for example mass globalization of markets and volatile changes to consumer spending behaviors. However, the very essence of this industry is still the same – organizations focused on inventory management and supply chain optimization, maintaining operating margins and accurately predicting demand. To them, outsourcing has always been an option, and has been readily explored over the years to find more pennies to save.

Moreover, retail businesses are typically reactive to market conditions and often radical long-termism doesn't fit as well with their mentality, especially when faced with uncertain times ahead. In addition, many of them have already shaved their operating costs to the bone, hence digging out new productivity benefits via outsourcing is often challenging – and mistakes can prove fatal in a low-margin business. Hence, it is vital for retailers to explore their outsourcing opportunities with diligence, ensure they fully understand the capabilities of providers and experiences of their peers before making tough decisions that could prove very hard to reverse if not well executed.



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Retail – The world as a marketplace

The global financial crisis was the worst in many decades and it pierced the heart of the retail industry. With high debt levels and low spending power by consumers, retailers were forced to ride out the storm by adopting austere measures such as reducing inventories, strategic marketing spending and reducing capital investments. Government intervention to stimulate demand and increase liquidity by recapitalizing major banks helped retailers avoid complete mayhem. Currently, shoppers are experiencing pressure with a weak job market and low consumer confidence and the current debt crisis and “Double Dip” fears are creating further uncertainties. This has led to a general strain on the overall shopping budget as people are buying lesser items, in terms of volume and value. HfS Research believes that this time around, retailers are a lot better prepared to weather a possible ‘double dip’ recession. We believe the global market for retail has learned well from the crisis, and in fact has already started to show strong profits, to be continued over the next few years. BPO for retail will play a critical role in this journey towards long-term stability as outsourcing service providers help retailers achieve their goals through a mix of retail specific BPO, technology assistance and consulting solutions.

What we mean by “Retail” and how BPO can help

In its purest form, retail consists of the sales of merchandise and goods from a fixed location for direct consumption by a purchaser. Locations may include departmental stores, mail or an online portal. Purchasers may include individual consumers or businesses. Retail is stacked at the end of the merchandise value chain as they acquire and stock goods from manufacturers and importers and sell directly to the end consumer.

Retail can be categorized in terms of:

- » **Types of products:** Food products, hard goods such as appliances and furniture, and soft goods such as clothing and apparel
- » **Marketing format:** The major types of marketing formats include
 - Departmental stores – Large stores which offer a wide range of products across many categories with a focus on customer service and experience
 - Discount stores – These stores stock affordable goods and offer cost savings as compared to other stores
 - Supermarkets – These retailers focus mainly on food products
 - Mom-and-pop stores – Departmental stores owned by individuals with a limited range of products
 - Specialty stores – Stores which stock a particular category of goods such as clothing or health food
 - E-tailers – This category is the most recent one with a virtual warehouse where customers place their orders through an online portal and the goods are delivered to their doorstep

In terms of overall challenges, increased competition, complexity in the marketplace and increased consumer polarization continue to trouble retail companies. With such a wide variety of retail formats, companies face unique business challenges that are increasingly driving them towards outsourcing. Retail-specific BPO solutions have matured tremendously and are constantly evolving to support this highly uncertain industry segment. The biggest driver for outsourcing in this space is to lower costs, especially the Selling, General and Administrative (SG&A) costs. Technology has made a sudden impact in the past five years. Companies are seeking to go online and streamline their processes while tracking their inventory and movement of goods in real-time.

In Exhibit 1, we argue that the major business challenges for retailers have a direct positive impact on the level of outsourcing in this vertical.

Exhibit 1

Macro-level challenges for retailers and their impact on outsourcing demand

Macro-level challenges	Impact on outsourcing demand
<p>Need for a personalized shopping experience: Customers want retailers to meet their individual needs and create a more tailored and relevant shopping experience.</p>	<p>Retailers are taking the outsourcing route to implement solutions based on customer analytics to increase the level of personalization for their customers. This involves building a robust framework to collect and manage a responsive customer analytics environment.</p>
<p>Not online yet?: With brick-and-mortar stores shutting down or not doing enough to drive incremental sales, the need of the hour is to go “online.” Retailers are seizing this opportunity to open and/or optimize online shopping portals, which require intensive investment in technology, resources and domain-specific specialization.</p>	<p>Retail companies are turning to outsourcing partners to help them make a transition from the typical, offline store format to a more evolved online format. Solutions such as online sales support, claims management and IT helpdesk services are proving to be very popular as stores take on the online format.</p>
<p>Customer-centricity: With multiple formats available to sell goods, retailers are transforming their operations to become more customer-centric and capture the attention of new customers.</p>	<p>With exposure to more content and information, customers can become empowered, making the retailer more relevant at the point of purchase. Through outsourcing their marketing support, companies can enhance their sales and promotional efforts per customer, while providing more options for service delivery (stores, home deliveries and online).</p>
<p>Going global: With stagnant growth in the US and Europe, larger retailers are looking to enter other regions such as the BRIC (Brazil, Russia, India and China) economies. This involves finding marketing partners and sourcing vendors for their goods, while trying to increase sales and save costs across multi-cultural environments.</p>	<p>Retailers are hoping to leverage the strong growth in emerging markets and translate that into long-term profit routes. They are considering outsourcing through global service delivery operating models to remain competitive and offer cost benefits to customers in new geographies across many product/service categories. There is a lot of demand for services such as retail consulting, market entry strategies and decision support services, which will help retailers capture new markets.</p>

Sluggish domestic growth: With the economy in a recovery mode and a weak level of consumer confidence, retailers are operating at single-digit growth across their stores. In the US, retail sales flatlined in August 2011, with consumers opting to spend less on durables and other goods. Retail sales figures rose only 0.3 percent over the previous quarter (US Commerce dept.). The situation in the UK is not dissimilar, with sales volumes decreasing by 4 percent in July 2011, the sixth-consecutive month of decline (Office of National Statistics, UK).

Demand generation services through effective planning and controlled inventory supply are some of the solutions that smaller retailers are implementing through partnerships with external service providers.

Cost-cutting: Retailers are constantly evaluating their product mix and operations to find the most efficient strategy to improve sales and profitability. This will have a direct impact on improving bottom-lines.

Outsourcing will offer a compelling route to cost cutting as retailers can offset mundane and costly operations such as finance & accounting and human resources to partners with an expertise in this domain.

Source: HfS Research 2011

These macro-level business challenges are in fact the main drivers for retailers to embrace outsourcing, and in particular, retail-specific BPO services. As the level of maturity increases in the global retail market, HfS Research believes that a more transformational approach will be adopted by companies as they seek partners who can help them manage business processes such as finance and human resources and support revenue-enabling activities which include e-commerce, merchandising and store planning.

Key takeaways

- » The global retail industry is on the slow path to recovery after the global recession affected their sales projections and operating costs drastically. With multiple formats and a wide range of goods on offer, retailers face unique challenges that can be addressed through careful selection of an outsourcing partner.
- » Key challenges the industry faces include the need to embrace the online shopping model, improve low levels of domestic growth, expand into new regions, save costs and improve process efficiencies, and increase the level of customer-centricity.
- » Providers are moving into the next phase of outsourcing services by not only providing solutions for these business challenges, but also offering a holistic, transformational approach to help retailers achieve their long-term strategies

Retail outsourcing – What’s in store currently?

Retail is a large and fragmented market with diverse categories including departmental stores, grocers, supermarkets and specialty stores. All these types of retailers have their own business challenges that make outsourcing in this vertical challenging. Retailers with low profit margins and high operational costs formed the most enthusiastic buyer market segment. The first wave of outsourcing in the retail sector began with the larger retailers. These companies turned to outsourcing for reasons not dissimilar to other industries – which included reducing operating costs and improving process efficiencies. Later on, retail decision-makers realized that the benefits from outsourcing should go beyond cost savings and onto value delivery in retail operations. There has been a rise in demand from smaller and mid-size companies in the past 3 years as retailers seek to attract and retain customers and providers help them scale up their operations.

Exhibit 2 Largest retailers by sales

Company	Headquarters	2009 Retail Sales (USD billion)
Wal-Mart	US	405.04
Carrefour	France	119.88
Metro	Germany	90.85
Tesco	UK	90.43
Schwarz	Germany	77.22
The Kroger Co.	US	76.73
Costco	US	69.88
Aldi	Germany	67.7
Home Depot	US	66.17
Target Corp.	US	63.43

Source: HfS Research 2011, 2011 Global Powers of Retailing (Deloitte Touche Tohmatsu Limited and STORES Media)

The US is the clear leader in terms of industry dominance with 5 of the top 10 retailers originating in the States. The rest of them are European based. Classified by format, the large retailers are typically discount departmental stores and hypermarkets. Grocers and Home Improvement retailers also feature in the list. In terms of outsourcing demand, general retailers have been more receptive to outsourcing as compared to specialty stores. Apart from the global retail giants,

there is strong demand from mid-level and smaller retailers as they are aggressively trying to ramp up their operations and embark on long-term growth plans.

Retail companies in different regions and countries have tended to adopt outsourcing differently. US- and UK-based retailers have taken the lion's share of outsourcing. Regulations within and between countries in Europe have inhibited Continental European adoption of new technologies and retail-specific BPO services. Europe presents more challenging opportunities for cross-border scale advantages. Differences in language and culture make it more difficult to streamline operations across countries in Europe. The inclusion of retail-specific technology solutions in traditional BPO services has accelerated outsourcing demand in the US market. European companies are now playing catch-up with heavy investments in new retail business models and IT infrastructure set-ups.

Retailers that have opted for BPO typically seek out service providers with proven capabilities in IT skills and prior BPO experience in the vertical. This helps them to improve their existing business processes and update their technology simultaneously. An added factor for partner selection is relevant expertise in retail consulting. Innovation and transformational solutions are critical for retailers as they seek to go onto a path of continuous process improvement, shorter sales cycles and new initiatives for customers and suppliers.

Packaging BPO services to retailers – What works?

Retailers have typically lagged behind most other industries in adopting BPO as a strategy. The main reason for this late adoption was the result of retailers being burdened with complex, home grown and poorly integrated platforms and processes. The global recession provided the stimulus for retail companies to start outsourcing services to service providers. There are four main categories of outsourced services, namely:

- » **Core retail solutions** – These services include operations support, Point-of-Sales (POS) solutions technology support such as RFID (Radio-frequency identification) tagging and support, retail logistics, merchandizing and warehouse support
- » **Horizontal solutions** – These solutions are horizontally aligned such as finance and accounting and human resources, but have been molded to best suit challenges for the retail industry
- » **Customer solutions** – These solutions have emerged as the most critical aspect with a lot of retailers looking to regain their eroded customer base and attract new segments of consumers
- » **Analytics** - Retail-specific analytics solutions have emerged as an important service as these solutions are imperative for decision-making and provide significant value addition to the retail vertical

Exhibit 3 outlines the various categories of retail BPO services with important solutions listed in each segment.

Exhibit 3
Prevailing Retail BPO solutions

Solution category	Retail challenges	Solutions
Core retail solutions	Non-standard processes, fragmented services in operations, Value creation and incremental sales in-store	<ul style="list-style-type: none"> •Operations support – Workforce management, Layout planning •Point-of-Sale solutions •RFID (Radio-frequency identification) tagging and support •Retail logistics, merchandising and warehouse services
Horizontal solutions	High-costs, disparate systems and applications, limited integration	<ul style="list-style-type: none"> •F&A – Accounts Payable, Accounts Receivable •Human Resources – Payroll processing, learning, Compensation and Benefits •Sourcing and Procurement - Strategic Sourcing, Contract Compliance and Tactical Procurement
Customer solutions	Changing customer preferences, Need to deliver better value to consumers	<ul style="list-style-type: none"> •CRM – Call center support, Online sales •Loyalty card processing – Campaign management •Content design – Catalog and collateral design
Analytics	Seasonality in business, Intense competition, Variable spending power of customers	<ul style="list-style-type: none"> •Retail analytics •Finance analytics •Customer analytics •Supplier analytics

Source: HfS Research 2011

In retail BPO, the industry has traditionally outsourced logistics, distribution and human resources (payroll and benefits) functions. The past three years have seen a significant increase in demand for customer-centric solutions to gain a more consumer friendly strategic focus.

The most popular horizontal solution for the retail industry is **human resources**. These services are helping retailers cut costs by an estimated 5 to 30 percent, increase centralization and improve efficiency among support functions. Retailers are being helped in their transition from multi-legacy system environments to single, central platforms. Demand is also arising from other areas in HR such as learning management, staffing and recruitment support.

Retailers with multi-country sourcing strategies have been early adopters of **procurement services**. These solutions help reduce purchasing costs and improve inventory levels. Retail-specific sourcing and procurement processes have emerged as key focus areas to drive cost savings. Solutions in sourcing and procurement have a direct impact on the retailers' payment value and source-to-procure cycles. Sourcing services are increasingly incorporating higher-end analytics such as spend management as part of a comprehensive solution package for retailers. These solutions monitor various processes such as execution of individual projects and managing variable suppliers to help decision makers in the company align and streamline their procurement strategies.

Surprisingly, **Finance and Accounting** services have not been as popular with the retail vertical as with other industries. Until recently, retail managers have relied on pure compliance through acts such as the Sarbanes-Oxley Act to ensure internal control. They are now venturing into outsourcing traditional F&A services such as accounts payable and collections to external service providers. Higher-end financial services BPO help retailers make key investment decisions and help support business enterprise growth.

Merchandising solutions for retailers have emerged as another area of business service opportunities for retailers. Service providers are helping retail companies analyze and plan their store sales, customer profitability analysis and product segmentation. These solutions include technology-led services for master data management, micro-merchandizing and space planning.

Differentiation is a huge factor for retailers to help them attract new customers and hold on to old ones – customer loyalty ranks very high on retailers' agendas today. Not able to compete on price anymore, they are instead offering improved customer experiences and value-added services to their faithful followers. This only heightens the demand for **customer-oriented solutions** among retailers. Retailers are turning to service providers who can provide an integrated approach to customer-centric solutions. At the front end, "value" services such as online sales and marketing support solutions are outsourced. At the back end, customer service solutions are offered. An outsourcing service provider can maximize the impact of both the front-end and the back-end of CRM by integrating these operations into a single package.

Loyalty programs have become a major influence in retail. The scope of these programs is expanding with most retailers switching from stand-alone promotional loyalty services to incentives for shoppers to buy more. As they look to reward their most loyal customers, service providers have stepped in to provide loyalty card processing services which manage the entire loyalty and promotional activity cycle.

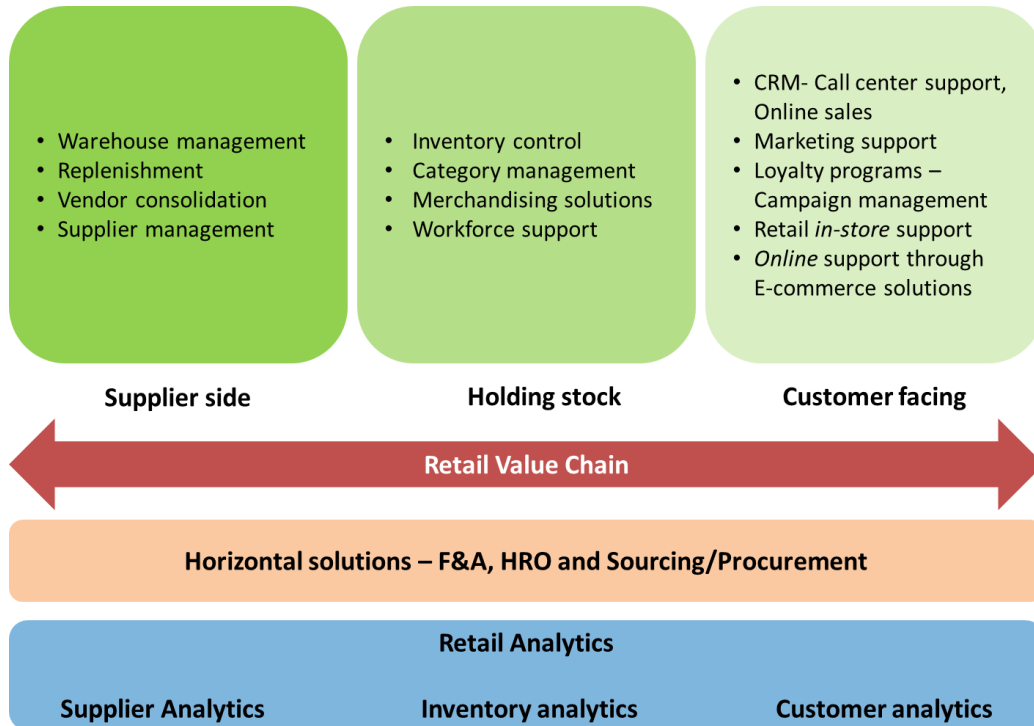
Analytics has emerged as an important service for all aspects of retail operations ranging from finance, customer data, retail, supplier information and merchandising. Key important analytics solutions include:

- » **Finance analytics** – These solutions help financial planners and decision makers connect the financial performance of the company with operational drivers
- » **Customer analytics** – Customer data is an important input for retailers as it helps them make better merchandising decisions. Traditionally, this data has been an asset that most retailers have struggled to use to its full potential. These solutions allow companies to leverage customer loyalty data, sales transaction information and store data to improve planning and forecasting decisions
- » **Supplier analytics** – Supplier analytics help retailers by providing a comprehensive, decision making platform for exchanging information critical to key business processes such as order management, vendor performance, inventory planning and rebate information

The range of retail BPO solutions can be viewed in a holistic manner through the analysis of the retail value chain. The classic model of the retail value chain has 3 components – supplier side, holding stock and customer facing segments.

The supplier side solutions include all retail-specific solutions, which deal with vendors and dealers for retailers. Popular outsourced services include warehouse management, supplier management and vendor consolidation. Benefits from these solutions include streamlining the supplier base along a common platform, reducing delivery delays and cost savings in procuring goods.

Exhibit 4
Retail BPO solutions along the retail value chain



Source: HfS Research 2011

The mid-section of the value chain deals with holding the goods procured before they are sold to the customers. Solutions in this section include merchandising support, workforce management and inventory control. Implementation of these solutions will result in greater efficiency of managing inventory and optimizing stock storage. With retailers offering multi-channel options to sell their goods, there are two main types of customer facing solutions, namely in-store support and online support. Both these solutions can be enhanced using marketing services and loyalty programs. All these core retail solutions are supplemented by horizontal services such as finance and accounting and human resources that are applicable along all stages of the value chain.

Criticality of retail-specific technology

Retailers have woken up to the fact that they need to operate in a multi-delivery option model with a successful online shopping portal and a thriving brick-and-mortar model. Retailers have invested heavily in IT to go online and offer web-based shopping for their customers and are now renewing their focus on traditional brick-and-mortar stores. The goal here is not to simply modernize the store, but to rethink and re-engineer the concepts of selling and customer service to create a “smarter” 21st century store.

Obtaining genuine value from traditional stores has never been more difficult. The internet and social media are pushing information to an increasingly sophisticated customer. Competitive distribution channels have emerged which has minimized profit margins for many retailers. To overcome these obstacles, retailers are looking to emulate web-based store offerings and bring the same level of service and technology to physical stores. This new generation of “smarter”

stores will incorporate retail-specific technology such as mobile applications, smart couponing and automated kiosks. Social networking will play an important part by providing a platform for community building and feedback sharing.

Retailers need to support and creatively use new methods of in-store selling to engage and re-connect with customers. Developing a roadmap to make this transition requires significant investment in terms of cost and domain expertise. Service providers with a strong background in retail-specific IT and platform-based solutions provide the ideal opportunity for retailers to embark on the route towards a truly sophisticated store.

Shopping for BPO – What are retailers' options?

The pool of retail BPO service providers is slowly expanding. The first companies to offer these services were the large, multi-national IT-BPOs who have now entered the retail consulting space as well. Smaller, more-traditional BPOs entered this market with “plain-vanilla” horizontal offerings such as finance and accounting and customer care which have been tweaked slightly for the retail industry, and have started to offer retail-specific store solutions. To add to this mix, we have the captive model, wherein large global retailers, mostly from the UK, opened captive centers for back office processing in low cost locations for cost arbitrage.

Over the years, retailers have traditionally followed four types of BPO engagement models, namely:

- » **Shared services** – This model offers fully owned operations located either onshore or nearshore that deliver popular sales, administrative, customer and procurement services. It requires an initial investment, after which incremental services can be added at relatively lower costs. This model's biggest advantage is that the retailer gets full control and ownership of the operations. Walmart has been successfully running shared service centers. Larger retailers such as Walmart have the scale to run onshore services cost effectively
- » **Offshore captives** – Delivery locations set-up in low cost locations such as India, Central America, China and Eastern Europe started the offshore captive model. This provided a higher cost arbitrage for the company, while maintaining 100% ownership of operations. UK-based Tesco has set up its captive center in Bangalore, India to run their finance and accounting and certain IT processes. This has allowed Tesco to have full control of their operations with the future option of pulling some processes back onshore
- » **Joint ventures** – Also known as the BOT (Build-Operate-Transfer) model, joint ventures are typically support operations established and operated by an outsourcing service provider. These centers are located mostly offshore and there is a future option for the client (retailer) to take full ownership of the center at a predetermined time. Global retail giants such as Target and Costco have taken this route.
- » **Outsourced models** – 100% scope outsourcing takes into consideration factors such as low-cost and high skilled labor, allied expertise in areas such as IT and a wealth of knowledge from external consultants. This model is very popular among retailers who want to outsource non-core retail activities on long-term agreements. Retailers such as CVS, IKEA, Office Depot and Best Buy have opted for full-scope outsourcing. Objectives such as cost reduction through labor arbitrage and adoption of centralized managed services were achieved through this engagement model

Stocking the shelf of outsourcing service providers

Retailers have generally started their outsourcing foray by adopting ITO before moving onto BPO services. This has led to an increasing amount of retail-specific BPO contracts being signed over the past few years, as the maturity of service provider offerings and capabilities have multiplied many-fold. Service providers who have proven themselves in this vertical typically have strong IT skills and prior BPO experience in allied areas such as sourcing, procurement and CRM. This helps the retailer tackle multiple objectives such as identifying target markets, improving business processes and standardizing IT platforms.

Exhibit 5 encapsulates the key service providers for the retail vertical, in our view. A detailed version of this list (with service provider capabilities) is appended at the end of the report.

Exhibit 5
Key service providers for the retail industry

Name of provider	
Accenture	IBM
Aditya Birla Minacs	Mphasis
Aegis	iGate-Patni
Atos	Infosys BPO
Capgemini	TCS
Cognizant	Wipro
CSC	WNS
Genpact	Xerox-ACS
HCL	

Source: HfS Research 2011

There are also a slew of smaller, niche service providers who specialize in select industry-specific solutions or have evolved their horizontal services to cater to retailers, including areas such as:

- » **Procurement** – Companies such as Global eProcure specialize in providing supply chain and sourcing services to optimize retail sourcing models. These companies also offer spend analysis and vendor consolidation services. They are investing in technologies to streamline procurement models for their larger clients, and partnering with larger players to offer end to end Source-to-Pay solutions
- » **Marketing support** – Service provider such as CMO Axis aim to understand the need of a typical retail CMO and offer marketing functions such as content design, marketing plan and strategy formulation, pricing strategies, sales support and promotions.
- » **Retail analytics** – Analytics in the retail industry is not only confined to industry analysis anymore. Companies such as Manthan Systems and MuSigma offer a range of analytics solutions for the industry including solutions for merchandising, customers, suppliers and finance. As each segment in the retail industry such as departmental stores, online portals and grocers have unique needs, this has led to the evolution of retail-segment specific analytics solutions.

These companies have established their niche for certain services and have strong domain expertise. Their only drawback is that they do not have the resources to scale up and make significant investments to offer solutions for clients in other regions.

The larger, more established service providers (presented in the table above) offer industry-best enterprise solutions and are learning from these smaller providers on how to provide more specific verticalized solutions for the retail industry. The current vendor base though is still dominated by these large service providers. From the list of providers compiled, HfS Research has plotted providers along their market footprint and market potential for the retail vertical. The details of this analysis are illustrated in the following section, the HfS Retail BPO FormGuide.

Trends in the making...

Retailers have begun to pay close attention to their customers in this uncertain, post-recession era. What they have found is that – if you listen closely enough, the shoppers will tell you exactly what they need. New channels are emerging to tap this customer sentiment that can be linked into retailers' strategies in order for them to improve sales and customer satisfaction. The retail store has emerged as the biggest focus area with companies striving to improve their speed of service and product availability. Customers want to get the most from their in-store shopping experience to ensure that their desired products are always in stock in convenient locations and properly displayed. Technology among customers is showing a slow but sure adoption rate, with customers willing to use mobile functionalities and automated couponing services. Customer service too is taking a front seat with retailers emphasizing on empowering in-store associates and managers on product information and customer interaction. HfS Research expects more deals from the retail sector in the next few years, driven by the following distinct trends:

- » **Shops moving towards the shopper** – Retailers are bringing their entire range of enterprise capabilities to the end consumer, regardless of where they are located. This includes in-store experience, online shopping, mobile shopping applications and outdoor promotions
- » **Retail organizational integration through multi-channel shopping** – Customers are demanding a seamless shopping experience through multiple channels, which is forcing retail companies to integrate their processes on an organizational level. Key processes which will need to be integrated on a single platform include customer service, merchandising, pricing, inventory and supply chain business processes
- » **Inclusion of social media in product development** – Feedback from social media is being used in the product lifecycle management process to improve product relevance, increase speed to market and reduce development costs. This integration is still in its infancy, but it will prove to be an effective channel in the future to maintain connections with consumers and help guide retailers' actions
- » **Rise of the knowledge retail worker** – Customers demand the right type of information regarding the products on display before making their purchasing options. Retailers are investing heavily in knowledge transfer and learning services to empower their employees to a knowledge-based workforce, increase their customer-facing hours and automating back-office tasks
- » **Mobile applications on the rise** – The emergence of smart phones and increased network bandwidth has provided an additional channel for retailers to transmit product and marketing related content such as promotions, prices and special services into the hands of today's customers

HfS FormGuide

Executive Summary

The past two years have been very challenging for the global retail industry. Low consumer spending levels and a weak job market has put a lot of pressure on retailers who are striving to clear out their inventories, reduce capital investments and increase demand for their products. The larger retailers are also facing pressures to expand their operations in emerging markets. The most pressing issue for retailers today is catering to the needs of a new generation of “online” shoppers who are shunning traditional stores and shopping increasingly through the internet and their smart phones. HfS Research believes that retail BPO will play an important role in helping retailers focus on their basic services, adopt newer technologies and implement multi-channel marketing to sell their goods and attract new customers in emerging geographies.

Introducing the HfS FormGuide

The HfS FormGuide offers buyers a quick way to identify and understand the providers operating within a particular market niche. HfS analysts plot providers positioning services in the retail industry along two major axes—market footprint and market potential. A provider’s market footprint reflects its client base, industry experience, geographical spread, and capabilities. Market potential measures the provider’s ability to scale, ability to offer solutions to different segments within the industry, and ability to offer retail-specific solutions with a platform based approach.

Exhibit 6

The HfS FormGuide: Notes for buyers

HfS FormGuide	HfS plots service providers providing services to the retail industry according to market footprint and market potential
How do we define the retail industry?	“Retail” consists of the sales of merchandise and goods from a fixed location for direct consumption by a purchaser and identifies the formats through which the merchandise can be sold. These formats include stores, mail or an online portal.
What are the components?	<p>There are four major categories of BPO services for the retail industry –</p> <p>Core retail solutions – These services include operations support, Point-of-Sales (POS) solutions technology support such as RFID (Radio-frequency identification) tagging and support, retail logistics, merchandizing and warehouse support.</p> <p>Horizontal solutions – Horizontally aligned services such as finance and accounting and human resources, molded to best suit challenges for the retail industry.</p> <p>Customer solutions – Service such as CRFM, marketing and social media planning to help increase customer base and attract new segments of consumers.</p> <p>Analytics - Retail-specific analytics solutions for decision-making and providing significant value addition to the retail vertical.</p>

Why now?

Retailers are facing challenges such as increased competition, low demand for their products and an increased complexity in the marketplace. The increasing popularity of alternate channels, such as the internet and mobile shopping, has resulted in unique business challenges for retailers that are increasingly driving them towards outsourcing. There is a high demand for core retail BPO solutions including advanced merchandising and in-store services. The opportunity for service providers has increased manifold and they are leveraging on their retail capabilities to gain maximum returns.

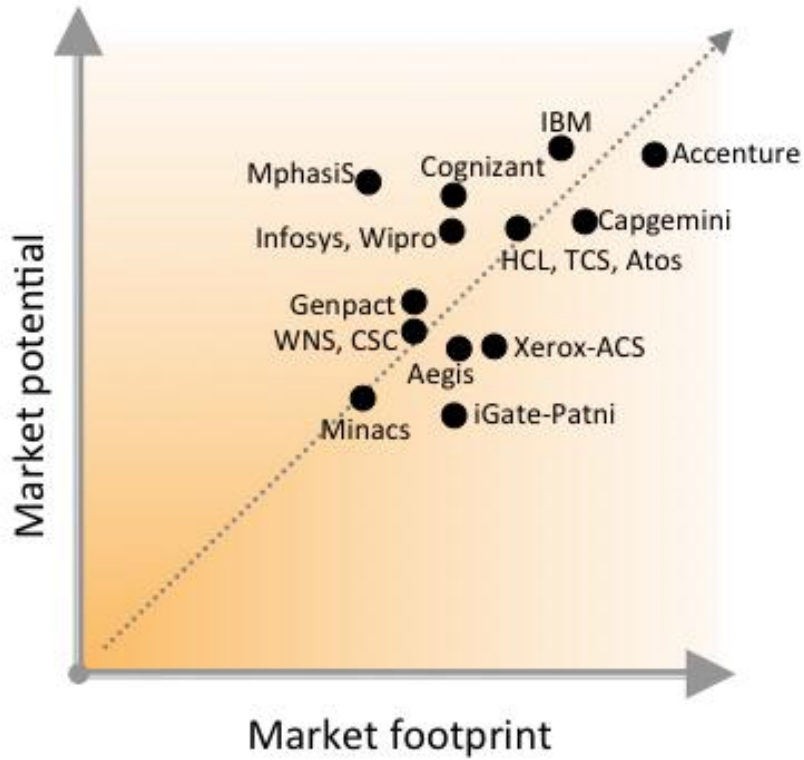
Source: HfS Research 2011

Context

The retail industry has been a late adopter towards BPO services. In most cases, retailers started their outsourcing initially through ITO support before moving to traditional BPO solutions. The first wave of service providers to cater to the retail industry was the traditional heavyweight IT-BPOs with horizontal offerings customized for the retail sector. Mid-sized service providers and niche players have entered the retail space more recently and are striving hard to catch up with the larger players. Service providers are now focusing on core retail solutions for in-store and online formats. Other areas of expertise for service providers for the retail industry include strong IT skills and prior BPO experience in allied areas such as sourcing, procurement and CRM. HfS Research believes that the number of companies offering these retail-specific services will definitely increase over the next few years.

Exhibit 7

HfS FormGuide – Servicing the retail industry



Source: HfS Research 2011

Exhibit 8
HfS FormGuide – Retail services

Form	Service providers	Explanation	What will they do next?
First past the post	Accenture, Capgemini, IBM	These companies represent the oldest and most experienced service providers in this field, with an average of more than a decade’s worth of experience. They offer comprehensive BPO, ITO and retail-specific consulting solutions. They are the pioneers in offering smart solutions for retailers including social media services, advanced merchandising and other technology intensive offerings. They have leveraged their expertise in IT to gain a strong foothold in the market.	Service providers in this category are now focusing on high-end core-retail solutions with an emphasis on “connecting” consumers to retailers. Services such as smarter online portals, user-friendly mobile apps and “smarter” stores will pave the way for the next generation of outsourcing solutions for the retail industry.
Leaders	Aegis, Atos, Cognizant Infosys BPO, Genpact, HCL, Mphasis, TCS, Wipro, WNS, Xerox-ACS	This group consists of service providers who have taken serious initiatives in the past five years in the retail segment. They have made significant investments and are moving up the value chain by offering higher end services. They have a strong delivery network in emerging markets and are targeting retailers who are looking to expand their operations in these geographies.	These service providers have the strength in numbers and are best placed to offer scalable solutions to their clients. They need to leverage their existing relationships and expand their critical value-adding services such as analytics (for retail and consumers), strategic marketing solutions and core in-store retail services.
Contenders	Aditya Birla Minacs, CSC, iGate-Patni	These players include the newest entrants and service providers who offer traditional pure play BPO services. They are watching developments in the retail industry with a lot of intent, and will be looking to make serious commitments to this sector in the next 2-3 years. Currently, their core competencies lie in horizontal specific services for the retail industry.	The contenders have established their niche in offering transactional services such as finance and accounting and human resources solutions. They must focus on building their retail domain expertise and start to offer more verticalized solutions for the industry with a focus on multi-channel selling.

Source: HfS Research 2011

Key takeaways: Retail service providers

Our analysis reveals that the retail service provider market is currently defined by 3 main types of suppliers, namely pioneers who have established their thought leadership in this space, leaders who are capitalizing on trends, and newer entrants who focus on horizontal solutions. The larger players face competition from these emerging companies who can offer scalable solutions at lower costs. However, most retailers are looking for solutions beyond cost savings. The biggest differentiator today is demonstrable domain knowledge in retail and capabilities in areas such as technology, social media, analytics and consulting.

The key takeaways from the HfS FormGuide for the retail industry are as follows:

- » **All in one offers - An integrated, multi-channel retail approach** – The oldest players have created for themselves a distinct advantage in terms of retail-specific solutions for the industry. They were the first to recognize the emergence of supplementary retail channels such as the internet. These service providers have developed an integrated approach towards retail BPO encompassing multi-channel strategies, technologies, consulting and end-to-end solutions, making a stronger proposition.
- » **Going Eastbound - Focus on emerging markets** – Service providers with a strong delivery location model in Asia must leverage these centers to offer retail solutions to global clients wishing to extend in these regions. Retail, as an industry, is not a truly global sector. The bulk of the retail giants are based in the US and Europe. Stagnant domestic growth is forcing them to enter emerging markets such as the APAC region and parts of Africa. Service providers must act quickly on this trend and offer solutions to these companies.
- » **Step Up – Moving along the value chain** – With costs no longer being the biggest selling point, the newer entrants must add retail verticalized solutions to their heavily horizontal dominated repertoire. This will require careful and strategic investments in certain niche solutions that are critical to the needs of the retail industry. Inorganic expansion through acquisitions of smaller niche vendors and absorption of experienced retail professionals will certainly help these service providers in becoming future leaders in the retail space.

What are FormGuides?

The HfS FormGuides provide decision-making support to compare service providers in a specific market place. Service providers are plotted along two major axes, market footprint and market potential. A provider's market footprint reflects its revenues in the specific market that HfS analyzes; service delivery capabilities and nature of clients. Market potential measures the provider's ability to scale and grow.

Methodology

For this study on the retail industry, HfS uses the following methodology:

- » Data collection
 - The data we have used for analysis has primarily been derived from discussions with senior executives in charge of the service/vertical, in their respective companies. In a few limited cases where we were unable to include information from primary research, we have relied on our vast desk research databases.
- » Parameters
 - Companies have been compared with industry averages for parameters under Market footprint and Market potential.
 - Market footprint: client base, industry experience, geographical spread, and capabilities (workforce).
 - Market potential: ability to scale, ability to offer solutions to different segments within the industry, and ability to offer retail-specific solutions with a platform based approach
- » We have attributed weightages according to what we believe are the most important parameters in both categories.

Appendix 1

Key service providers for retail BPO

Name of provider	Headquarters	Retail BPO service areas	Key insights
Accenture	Dublin, Ireland	<ul style="list-style-type: none"> Supply chain management Cost management Workforce performance management Inventory planning Human Resources Payroll Finance and Accounting In-store optimization Content reporting POS systems management 	<p>Caters to the following formats: Department stores and general merchandising, Fashion and Apparel, and Grocery and Drugstores</p> <p>Accenture Global Delivery Network has skilled resources to build, manage and implement complex and large-scale retail processes</p> <p>Key clients include Best Buy and a major European consumer electronics retailer</p>
Aditya Birla Minacs	Bangalore, India and Toronto, Canada	<ul style="list-style-type: none"> Inventory planning and management Rebate and claims administration Channel marketing and sales support Program analytics Web-based process automation Product financing and insurance 	<p>Caters to the overall retail format in general</p> <p>Specializes in channel sales activities and resource planning for retailers</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
Aegis	Mumbai, India	<ul style="list-style-type: none"> • Sales support • Customer care • Technical support • Outbound support 	<p>Caters to the following formats: Retail pharmacy chains, E-commerce solutions providers and Consumer electronics/Home appliance retailers</p> <p>Aegis has over six years of experience in the retail industry with over 700 FTEs servicing retail clients across the globe</p> <p>Key clients include a leading US-based pharmacy chain, a major US-based floral and gift retailer and a telecom retailer based in India</p>
Atos	Bezons, France	<ul style="list-style-type: none"> • New media campaigning • Supply chain management • Customer relationship management • Hi-tech transactional services • Smart warehousing and logistics 	<p>Caters to the overall retail format in general</p> <p>Specializes in providing IT support in addition to core retail BPO services</p> <p>Strong expertise in electronic transactions and payment services</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
Capgemini	Paris, France	<ul style="list-style-type: none"> • Consumer insights and loyalty programs • Consumer engagement and experience • Innovation management • POS solutions • Channel integration • Demand planning • Logistics support • Supply chain management • Finance and Accounting • Human Resources • Workforce management 	<p>Caters to the overall retail format in general</p> <p>Strong expertise in retail transformation solutions with a focus on expansion strategy, format development and performance improvement</p> <p>Key clients include Meijer (US), RAST (Poland) and X5 (Russia)</p>
Cognizant	Teaneck, New Jersey	<ul style="list-style-type: none"> • Finance and Accounting • POS helpdesk • Supply chain management • Master data management • Category management • Revenue management • Content management • Customer analytics • Warehouse management 	<p>Caters to the following formats: Department stores, Discount stores, Grocers and Specialty retailers</p> <p>Key clients include 11 of the top 30 US retailers and 8 of the top 30 global retailers</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
CSC	Falls Church, Virginia	<ul style="list-style-type: none"> • Supply chain management • Logistics support • Retail analytics • Business process reengineering 	<p>Caters to the overall retail format in general</p> <p>CSC supports over 50 percent of the 2009 Global 500 General Merchandise retailers, Food and Grocery wholesalers and Fashion brands</p> <p>Areas of expertise include innovation and speed-to-market, customer support services and integration of mobility, POS and loyalty programs</p> <p>Key clients include Armani, Bhs and Callaway Golf</p>
Genpact	Gurgaon, India	<ul style="list-style-type: none"> • Customer care • Retail analytics • Business process reengineering • Finance and Accounting • Procurement and supply chain solutions • Help desk • Demand forecasting and planning • Human Resources • Payment processing 	<p>Caters to the overall retail format in general</p> <p>Relevant acquisitions include Symphony Marketing Solutions, a leading provider of analytics and data management services in the retail, pharmaceutical and CPG industries</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
<p>HCL Technologies Ltd – Business Services</p>	<p>Noida, India</p>	<ul style="list-style-type: none"> • Multi-channel retail services • Traceability solutions • Supply chain management • Customer relationship management • Ecommerce solutions • Planning, Merchandising and Demand Intelligence 	<p>Caters to the overall retail format in general</p> <p>HCL has over 10 years of experience in the retail vertical with over 3,600 consultants working in this domain</p> <p>Offers a dedicated Retail Solution Group enabling domain-focused collaboration and sharing of industry best practices</p> <p>Key clients include 10 of the top 70 global retailers and 4 of India’s top 5 retailers</p> <p>Provides end-to-end BPO solutions for the retail vertical ranging from product lifecycle management to customer solutions</p>
<p>IBM</p>	<p>Armonk, New York</p>	<ul style="list-style-type: none"> • Social media monitoring and analytics • Ecommerce solutions • Mobile shopping solutions • Multi-channel order management • Procurement services 	<p>Caters to the overall retail format in general</p> <p>Has over 30 years of experience in offering POS solutions for the retail industry</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
iGate-Patni	Fremont, California	<ul style="list-style-type: none"> • Supply chain management • Procurement • Merchandising • Customer support • Financial management • Human Resources • Master Data Management • Inventory planning 	<p>Caters to the overall retail format in general</p> <p>Has over 16 years of experience catering to the retail industry</p>
Infosys BPO	Bangalore, India	<ul style="list-style-type: none"> • Finance and Accounting • Human Resources • Sourcing and Procurement • Operations support • Master Data Management • Category/Inventory management • CRM • Coupon/Loyalty card processing • Supply chain and Merchandising • Consumer analytics 	<p>Caters to the overall retail format in general</p> <p>Has a strong global delivery model with locations in India, China, Mexico, the Philippines, and Poland</p> <p>Infosys has over 1,200 professionals working in the retail domain</p>
Mphasis	Bangalore, India	<ul style="list-style-type: none"> • Supply chain management • Retail store solutions • Customer care • Retail analytics • Business consulting • Ecommerce solutions 	<p>Caters to the following formats: Department stores, Specialty retailers, Grocers, Supermarkets, Hypermarkets and Convenience stores</p> <p>Has a strong expertise in retail technology consulting and enterprise application management</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
TCS	Mumbai, India	<ul style="list-style-type: none"> • Merchandising solutions • Store planning services • POS helpdesk • Inventory management • Workforce planning and scheduling • Category management • Supply chain management • Supplier relationship management • CRM • Master data management 	<p>Caters to the following formats: Grocers, Specialty retailers, Non-store retailers, Fashion and Apparel, General merchandisers and Pharmaceutical retailers</p> <p>Offer an integrated service offering comprising of IT, consulting and BPO as part of their transformational retail solution package</p> <p>Recent acquisitions include Super-Valu Services India, the captive IT/BPO unit of the US-based grocery retailer Super-Valu Inc. The deal strengthens TCS' position as a full service ITO/BPO provider for the retail industry</p>
Wipro	Bangalore, India	<ul style="list-style-type: none"> • CRM • Ecommerce solutions • Supply chain management • Stores operations management • Retail merchandising • Retail analytics • Marketing • Human Resources • Business intelligence • Risk management • Inventory planning • Price optimization 	<p>Caters to the following formats: Grocers, Fashion, Specialty retailers, Pharmaceutical retailers, Wholesalers, Department stores and Convenience stores</p> <p>Has established a retail Centre of Excellence which provides retail consulting services through in-house experts and consultants</p> <p>Offers transformational retail solutions through their investments in technologies such as cloud technologies, digital platforms for e-commerce, social media, mobile computing and tablet-based applications</p>

Name of provider	Headquarters	Retail BPO service areas	Key insights
WNS	Mumbai, India	<ul style="list-style-type: none"> • Social Customer Relations Management -Multi-channel Customer Service Management -Individual Life Cycle Marketing -Efficient Customer Service • Procurement & Supply Chain -Demand Planning & Inventory Management -Sourcing & Procurement Management -Logistics and Fulfillment -Sales Support and Service Management • Finance & Accounting Services -End-to-End Procurement-to-Pay process -End-to-End Order-to-Cash process -Collections Management -Record-to-Revenue process -General Accounting -Treasury & Tax • Insights & Analytics -Category Management -Trade Promotion Optimization 	<p>Caters to all retail formats- Online Retail, Grocery & Drug Store, Department & General Store, Fashion & Apparel and Catalog Retailers</p> <p>WNS offers a comprehensive suite of end-to-end Retail BPO offerings, with specialized platforms and embedded analytics</p> <p>WNS has retail-specific rich domain knowledge and has made significant investments to develop vertical-specific BPO offerings for the retail industry</p> <p>Supply chain solutions from WNS include solutions for Demand Supply Orchestration</p> <p>Social CRM Solutions from WNS provide multi-channel customer service with one customer view; enable precision marketing that is content, interaction, channel and time specific</p>



Name of provider	Headquarters	Retail BPO service areas	Key insights
Xerox-ACS	Dallas, Texas	<ul style="list-style-type: none">• Customer care• Document and data management• Finance and Accounting• Human Resources• Loyalty card processing• Retail analytics	<p>Caters to the following formats: Convenience stores, Department stores, Merchandise stores and Specialty retailers</p> <p>Has over 20 years of experience in the retail and CPG verticals</p>

About the authors

Reetika Joshi

Reetika Joshi is a Principal Analyst at HfS Research. She currently tracks the outsourcing industry, with a special research focus on Business Process Outsourcing and Analytics services markets.

Based in Pune, India, Reetika spent the last three years working with the sourcing research wing of business research and consulting firm ValueNotes. Her last profile as Project Manager encompassed a range of responsibilities including research product design and development, managing custom research engagements, developing thought leadership through targeted content and community interaction, and supporting the business development team. Being a strong believer in the power of online communities, she was also responsible for driving the unit's web and social media strategy and presence.

Reetika has undertaken several research assignments across the outsourcing spectrum, including market studies in niche BPO and KPO areas such as analytics, medical transcription, market research and e-learning. She has served clients through multiple bespoke research engagements, including in-depth competitive intelligence studies, market and investment opportunity assessments, demand-side surveys and marketing communication optimization for outsourcing buyers, providers, consultants and investors. Her work has appeared in many industry-relevant publications and websites, including Outsourcing magazine, Global Services Media and the Horses for Sources blog. She has presented her views on the state of the outsourcing at various conferences.

Reetika has completed her Masters in Marketing Management with distinction from Aston University, UK, receiving Beta Gamma Sigma honors. She was awarded the Accenture prize for Best Student on her course. Prior to this, she received her Bachelors in Business Administration with distinction from Symbiosis International University, India.

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Phil Fersht

Phil Fersht is Founder and CEO of HfS Research. He was named "IIAR Analyst of the Year 2010" by the Institute of Industry Analyst Relations (IIAR). This is the most coveted global award for industry analysts in technology and services. His specialist coverage areas include finance, HR and supply chain BPO, and he also focuses on industry-specific issues and the convergence of BPO, SaaS and Cloud in a business utility context.

He is an acclaimed industry analyst, practitioner, advisor and strategist across Business Process Outsourcing and IT services worldwide, having worked extensively in Europe, North America and Asia. During this time, he has advised on more than 100 major outsourcing and offshoring engagements and consults regularly with senior operations and IT executives on their global sourcing strategies. At HfS Research, Phil directs and contributes to the firm's research and social media strategy, in addition to administering the global finance and business operations.

During his career, Phil has worked at AMR Research (Gartner Inc), leading the firm's BPO and ITO practice. Previously, he served as market leader for Deloitte Consulting's BPO Advisory Services, where he led numerous outsourcing and offshoring advisory engagements with Fortune 500 enterprises. He also worked for outsourcing advisor Everest Group leading the company's BPO research practice. Phil began his career at IT analyst IDC across its European and Asia/Pacific operations.

Phil is a frequent author and speaker on IT services, Finance, HR and Procurement Business Process Outsourcing trends and issues. He was named both an "FAO" and "HRO Superstar" by FAOToday and HROToday Magazines for 2005, 2006, 2007, 2008, 2009 and 2010 and was featured as the cover story for the December 2006 issue of FAOToday as one of the outsourcing industry's most prominent advisors. He was also nominated for "Advisor of the Year" at the FAOSummit 2008. He speaks regularly at industry conferences, which have included The Conference Board, NASSCOM, IDC Directions, the Sourcing Interests Group, the Shared Services & Outsourcing Network and the Council of Supply Chain Management Professionals. He is also a regular columnist for several industry publications, including Global Services Media, SSON, FAOToday and Finance Director Europe.



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About HfS Research

HfS Research (www.HfSResearch.com) is the foremost analyst advisory organization and social networking community, focused on helping enterprises make complex decisions with their business process operations governance, IT services, outsourcing and shared services strategies.

With more than 60,000 subscribers, HfS Research provides the largest, most impactful and frequently visited collaborative community platform in the global services industry, providing rapid and insightful commentary, analysis and debate of enterprise outsourcing and shared services dynamics. The organization is unique in the fact that it integrates personable social networking with market research analysis and expert advisory services.

In 2011, HfS was awarded **Outsourcing, BPO and Services Analyst Firm of the Year** by the International Institute of Analyst Relations (IIAR), the premier body of analyst-facing professionals, and runner-up for overall **Analyst Firm of the Year**.

Led by recognized industry expert Phil Fersht, the HfS Research team is a multi-disciplinary group of analysts across North America, Europe and Asia/Pacific regions, with deep domain knowledge in business process outsourcing, information technology services and shared services strategies.

Launched in 2007, HfS Research's acclaimed blog **Horses for Sources** has more than 120,000 monthly visitors across the global services industry, and is widely-recognized as the leading destination for collective insight, research and open debate of industry issues and developments. The HfS LinkedIn community, The BPO and Offshoring Best Practices Forum, is thriving with over 14,500 industry professionals sharing views and information daily. You can access information about HfS at www.HfSResearch.com and on Twitter at www.twitter.com/horses4sources.

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