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What are Business Platforms and
why do they represent the future of outsourcing?
November, 2011

WHAT ARE BUSINESS PLATFORMS AND WHY DO THEY REPRESENT THE FUTURE OF OUTSOURCING?

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Executive Summary

Business Platforms are the future of business process outsourcing and represent the true fusion of the benefits provided by standardized business processes, cloud computing, and SaaS in a singular managed service delivery model.

Today, most enterprises are experienced outsourcers. They've earned their stripes by slashing their conspicuous operational costs with predominantly labor-based outsourcing engagements, particularly in labor-intensive areas such as software maintenance and development, customer management services, transactional accounting, and administrative HR. These organizations have learned that labor arbitrage alone cannot deliver breakthrough outcomes. To achieve substantially better results, these organizations are shifting their focus to areas where more complex processes and technology changes are required. Yet, these changes are nothing new. Over the last two decades, companies have invested trillions of dollars upgrading systems, integrating data, and reengineering processes.

Two things are new. First, these organizations are now working with highly competent BPO services providers who service many large enterprises' needs. Second, technology solutions are quickly evolving into cloud-based solutions. The convergence of these two evolutions has left executives asking, "Can I avoid historically large investments and achieve major advances by combining BPO and technology?"

Adopting solutions that couple BPO and cloud-based solutions can potentially provide that trigger. Our research indicates the market is ripe for widespread adoption in various process areas. HfS research believes that "Business Platforms" (which is the name we've given the combined solution) will refashion the way buyers access best-in-class process outcomes.

This *Rapid Insight* defines Business Platforms and provides evidence from HfS' latest industry study that buyers are evaluating standardized business process opportunities extensively as part of their overall global sourcing strategy.

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What are Business Platforms?

Business Platforms are the fusion of cloud computing, SaaS, and BPO innovations in an integrated singular managed service.

Business Platforms will enable buyers to rapidly transition to a desired future state for a specific business process, or set of processes. Business Platforms have four key characteristics:

1. Business Platforms deliver standardized business processes;
2. Business Platform owners (services providers, not buyers) manage the business processes associated with the Business Platform and furnish the complete solution, including the people that operate them, the underlying software platform, and the infrastructure;
3. Business Platforms focus on business outputs or outcomes such as improved working capital and higher customer loyalty, not inputs such as labor and physical assets;
4. Business Platforms service more than one client.

Well-executed Business Platforms provide customers with compelling technology-enabled business process services that help drive innovation via process re-engineering, greater business agility, and productivity improvements. They are flexible and scalable in the face of global demand fluctuations and provide high-quality process workflows.

Demand for cost reduction, process standardization, global flexibility, and better technology sets the stage for Business Platforms

The days of organizations being willing to make multimillion-dollar capital investments to transform processes as part of a complex outsourcing transformation are fast diminishing. Subscribing to Business Platforms, which consolidate infrastructure, middleware software, labor, and process/domain expertise (including future investments) and invoice them as an operating expense, is attractive to clients. Cheaper to get started, and with output or outcome-based fees, Business Platforms align with the current budgeting trends evident in the market.

Our new study, which covered the intentions and observations of 534 buyers, advisors, and providers with their sourcing strategies, in the event of a "double-dip" recession, reveals what is motivating buyers to outsource in this current climate: while eliminating costs is still a major interest, buyers are increasingly focused (**Exhibit 1**) on achieving greater flexibility to scale their global operations.

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Exhibit 1: Outsourcing motivations move beyond solely cost: standardization, global flexibility, and better technology

Q. To what extent are the following factors MOTIVATING your organization to outsource in this current unstable economy?
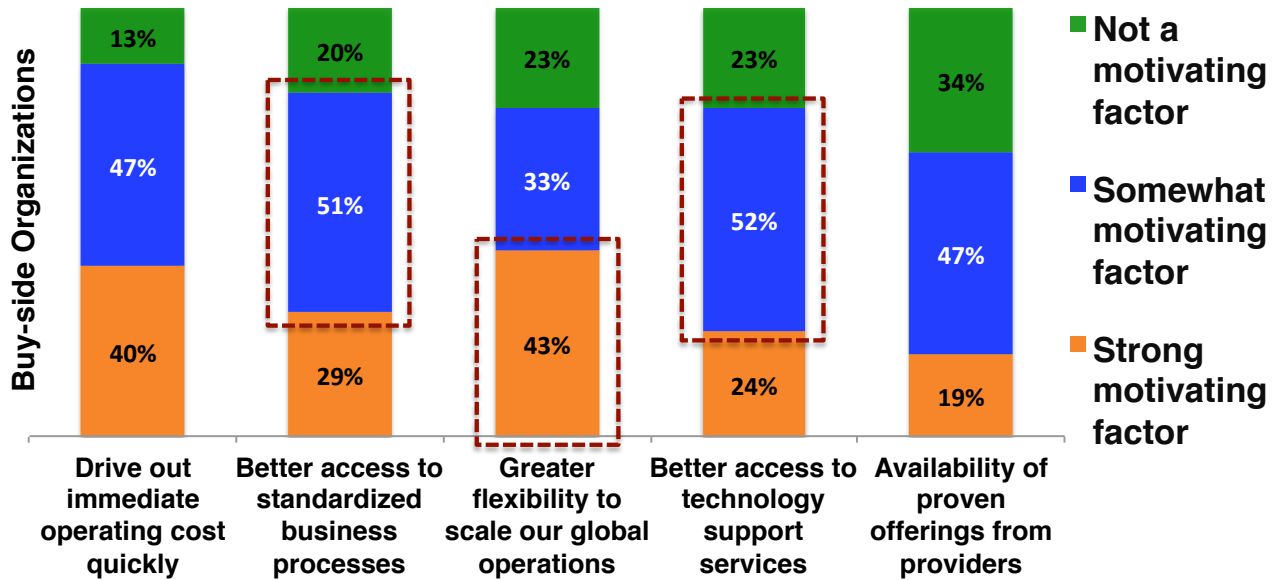
Source: HfS Research September 2011, Sample: 177 Buy-side Organizations

Buyers being highly motivated to move to common standards drives the development of Business Platforms

Executives will be shocked by our finding that eighty percent of buyers are willing to move onto standard processes. Buyers are unconcerned if their closest competitors use the same expense management or claims adjudication processes, the same cash applications or collections tools. They simply want to adopt quality process flows they can deploy effectively and efficiently when there is no competitive advantage to be gained by conducting these processes in a unique manner.

This is massive news for providers seeking to push more productized and one-to-many (or at least one-to-few) Business Platform offerings into the market. With increased buyer interest, the ability to develop best-in-class processes within Business Platforms, whether they focus on horizontal or vertical process clusters, is becoming a real differentiator in the market.

Buyers' increasing interest in Business Platforms is driven in part by the need to reduce IT complexity and cost. Business Platforms help buyers avoid cumbersome management of on-premise software, expensive licenses, and supporting infrastructure. Moreover, Business Platforms help business owners contend with resistance from internal IT staff and complex prioritization processes. In short, buyers are motivated to accelerate change by moving from "A to C" and skipping much of that painful "B" phase (which is often where many get stuck into perpetuity).

Buyers want to globalize their business service management more effectively – and Business Platforms fit the bill

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The greatest motivator of outsourcing in today's environment is the need to have more flexible global operations (forty-three percent). Governance leaders are under increasing pressure to move onto single instances of ERP, and to develop real end-to-end visibility across their global processes. In the old days of outsourcing, far too many organizations would operate their shared services under one management team. This organizational change often assembled siloed management functions into an even more disconnected and unwieldy broad shared services function – a silo of silos. To reduce costs, they'd simply outsource a silo.

Today's shared services leaders know they need to integrate silos much more effectively in order to achieve anything close to global process effectiveness. Introducing Business Platforms into the equation helps operations managers bridge the process and IT silos and mitigates the risk of poorly integrated shared services and outsourcing delivery. They are also highly cognizant of the fact that they can leverage outsourcing as a vehicle to achieving process enhancements that have been back-burnered for years, and Business Platforms can provide a tailor-made solution – albeit initially on a process-by-process basis. In the future we may see services providers being able to manage and integrate a community of Business Platforms and services on behalf of customers.

Mid-market firms are already seeing value in working with SaaS solutions like Netsuite OneWorld that can consolidate multinational subsidiaries data into one system, improve analytics and reporting, and reduce risk, by locating sensitive data in the SaaS solution and not on-premise in high risk locations. BPO providers like Genpact now have the opportunity to wrap people and process around SaaS to create Business Platforms.

Buyers want better technology support, which puts IT services providers in a strong position to take advantage of Business Platforms

In previous outsourcing deals, BPO services providers were expected to have a bench of technology experts to support the heterogeneity of a client's dysfunctional IT processes and technologies. Services providers had to contend with tools that may not have been well integrated, multiple databases that store information, and weak reporting/analytics that require extensive custom analysis just to figure what is going on. Meanwhile, ITO services providers were tasked with improving application feature sets and uptime at a much lower cost. Outsourcing only compounded the problems of poorly aligned and soloed processes.

You only have to look at the pain in the eyes of the long-suffering process-owners to understand. After several years and many mergers, they are still trying to develop a standard global template for their P2P processes, while their IT counterparts work agonizingly slowly toward delivering one instance of SAP. They still spend a fortune each year on multiple services firms to help with Nota Fiscal, China's Golden Tax, or the Russian Tax Code. Some simply wind up dropping enormous hourly rates on SAP's consultants to do it for them. Process owners' patience has worn thin – they are fed up with the complexity. These firms want more bang for their buck when they look at their global outsourcing engagements.

Business Platforms consolidate responsibility for IT and the business process through a single expert service provider tasked with accountability for outcomes. This reduces finger pointing between multiple parties and allows the Business Platform provider to make investments in people and technologies that enhance business outputs or outcomes.

The buyer's voice is being heard

For IT executives and CIOs, the Cloud is a technology and business enabler; for the business, it is a source of innovation. Buyers are realizing that Business Platforms ensure that they can reduce their reliance on on-premises software, hardware, internal administration, and operational processes. The buyer's demand for Business Platforms is being heard (certainly by us, but also by services providers and other outsourcing advisors). Our September 2011 research shows that seventy-five percent of organizations want to reengineer their existing business processes in an effort to develop more flexible global operations. Thirty-five percent of organizations will increase their impetus in evaluating Business Platforms and forty-five percent of organizations will increase the impetus to move infrastructure to the Cloud (**Exhibit 2**), all brought about by the prospects of a "double-dip" recession.

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Exhibit 2: Business function leaders seek to reengineer business processes and explore the potential of Cloud delivery

Q. In your opinion, how will a "Double Dip" Recession impact your organization's impetus to pursue the following PRODUCTIVITY measures over the next six months??
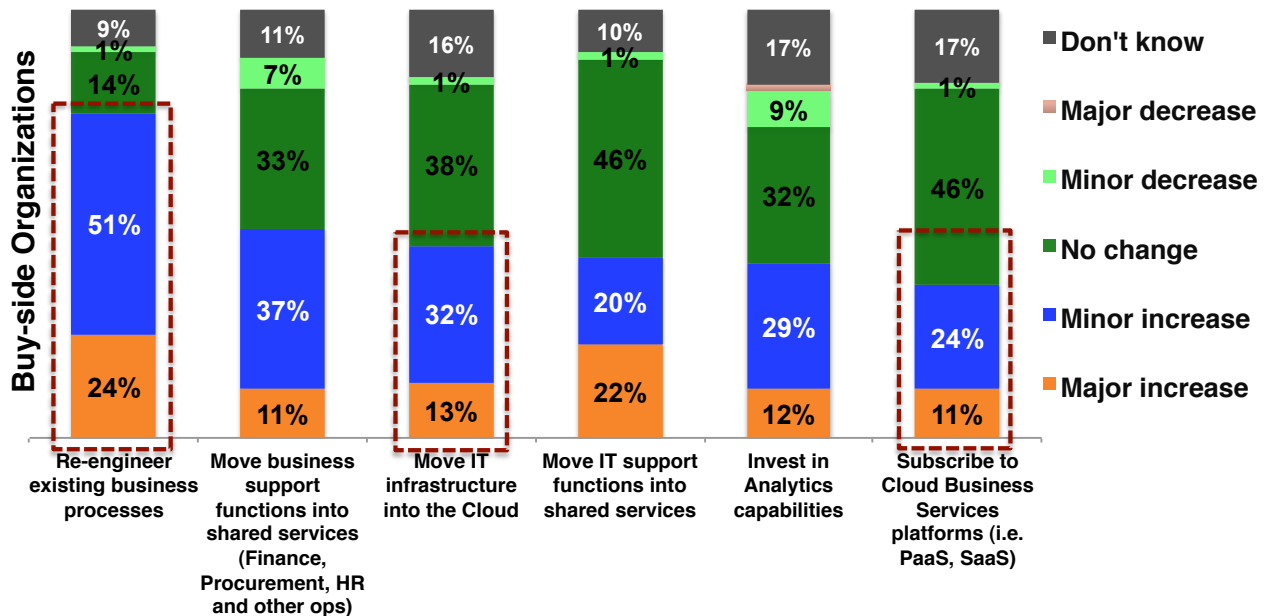
Source: HfS Research September 2011, Sample: 177 Buy-side Organizations

In turn, services providers are investing in Business Platforms

Services providers are responding to this demand by investing heavily to build the operational and technology service delivery foundation upon which they can win in the Business Platform market. For instance, European services powerhouse Capgemini has developed Business Platforms such as Smart Energy Services, and acquired assets like IBX to go after procurement. Infosys has carved out more than ten offerings through its Infosys Edge Business Platform unit. Cognizant has built out its Business Platforms credentials with clients, including a leading US telecommunications provider, to offer Order Management as a Service and with Eli Lilly to offer Commercial Analytics as a Service, the latter based on IP from its acquisition of analytics vendor MarketRx. Accenture's acquisition of Zenta is designed to offer a robust Business Platform in the mortgage processing industry, as the firm already has strong BPO capabilities. Xerox's acquisition of ACS was designed to help create an integrated print and document management solution.

As seen in the examples above, services providers will have to invest *heavily* up front to build *capable* Business Platforms. Nibbling on the edges of capability won't help them succeed. Services providers will need to seriously invest in a manner that is quite different from historical practices of asking buyers to foot the reengineering bill with start-up fees or technology licensing fees through a separate, on-going charge. As such, providers will have to take a long, hard look at the way they do business today to distinguish tomorrow's platform assets from the outsourcing baggage of yesteryear. Some providers may face daunting technology upgrades and operational changes. In the long term, we believe that to create a more flexible, standardized and cheaper Business Platform, significant new investments will have to be made.

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The Bottom Line: Ask Services Providers about their Business Platform Experience and Strategy

The Business Platform market is at a very nascent stage of development, especially for IT-oriented services providers that see their expertise in technology as a way of entering the BPO market. While early in development, we expect this marketplace to flourish and to become the place where innovation in the outsourcing industry will happen.

Services providers will have to provide new governance and management services to help organizations assess, implement, and manage a portfolio of business platforms. Providers will be expected to offer more "off the shelf" process support and "innovation" as part of the deal. HfS increasingly views the capability of providers to offer more innovative approaches to clients as a crucial differentiator – for example, if three providers are offering the same processing support as part of a Business Platform solution based on SmartStream (a popular banking application), what makes them distinctive? Quite simply, the provider that can offer up real domain knowledge, innovative ideas, and a collaborative attitude as part of the deal, all of which will mean more to clients than simply undercutting rivals by a few cents in the transaction.

Organizations should refrain from rushing into such major decisions without giving considerable thought to the financial implications, risk factors, and organizational change necessary to win from these sourcing tools. But unnecessary caution should not slow innovation. When reviewing your requirements for traditional BPO, a market that is growing and by no means going away, ask your services provider about Business Platforms. They may very well be new to the services provider and your organization, but the cost savings and risk profile may be sufficient to engender serious assessment.

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About the Authors

Robert McNeill

Robert McNeill is a Research Vice President focused on cloud business services, IT management and effective sourcing strategies for end-user organizations and service providers. McNeill's main focus at HfS is delivering research, thought-leadership, practical advice, and imparting real-world Cloud services experience to buy-side clients and service providers on what really matters – how to execute Cloud business strategy in a manner that creates real business value. McNeill will examine the industry dynamics driving business utility solutions, as the boundaries between Cloud Computing, Business Process Outsourcing and IT infrastructure services continue to blur.

Prior to HfS, Robert was VP Research/Consulting for Saugatuck Technology, VP Strategy/ Marketing for SaaS vendor Service-now.com, a management consultant with Deloitte Consulting advising organizations across North America on IT and business process sourcing strategies and a Principal Analyst with Forrester Research. He is a contributing author of a book produced by the Institute of Directors in the UK on software asset management.

Robert holds a master's degree in European business and a bachelor's degree in business studies from Cass Business School, City University, UK.

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Tony Filippone

Tony Filippone is executive vice president of research at HfS Research, where his primary focus is delivering research, practical advice, and imparting real-world vendor management experience to buy-side clients and service providers on what really matters—how to govern outsourcing programs in a manner that creates real value for all parties. He also oversees the company's research in the healthcare industry BPO vertical and the document management and call center BPO horizontals.

Prior to joining HfS, Tony spent nine years at WellPoint, the United States' largest health benefits company, where he had multiple leadership roles. He initiated and led the company's enterprise-wide BPO governance for a multi-vendor, multi-process (call center, back office processing, imaging/data entry/mailroom and KPO) program with thousands of FTEs. He led strategic sourcing in complex indirect services procurement, where he managed the selection and enterprise-wide implementation of an industry-leading procurement application while simultaneously leading cross-functional sourcing teams in outsourcing, marketing, consulting, facilities, contingent labor, and HR. Tony also led WellPoint's strategic procurement initiatives, including creating and leading its strategic supplier management program, demand and consumption management analyses, and business process benchmarking. Before WellPoint, Tony spent seven years consulting with Accenture and MarchFirst, where he specialized in business process simulation and reengineering, strategic customer relationship management, and post-merger/acquisition integration management.

Tony holds an MA in Communication Management from the University of Southern California's Annenberg School for Communication and a BA in Organizational Communication (Magna Cum Laude) from Pepperdine University. He is a Certified Professional in Supply Management (CPSM) from the Institute of Supply Management (ISM).

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Phil Fersht

Phil Fersht is Founder and Chief Executive Officer of HfS Research, the leading global research analyst organization covering global services and outsourcing strategies. He was named "IIAR Analyst of the Year 2010" by the Institute of Industry Analyst Relations (IIAR) and retained this award in 2011. 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

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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.

Phil received a Bachelor of Science, with Honors in European Business & Technology from Coventry University, United Kingdom and a Diplôme Universitaire de Technologie in Business & Technology from the University of Grenoble, France.

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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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