

# BPO with *Business Insight*: Leading the Evolution of 3rd Generation Business Process Outsourcing

**A Capgemini White Paper**  
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# Executive Summary

The 3rd Generation of Business Process Outsourcing (BPO) services has arrived. It is focused on increased value add, innovative solution architectures and much closer partnerships between clients and service providers. Capgemini is leading 3rd Generation BPO providers in collaborating with clients to improve the top line, while still delivering conventional BPO support that benefits the bottom line.

Third Generation BPO is a natural evolution in the BPO market as both the supply side and buy side mature and seek new, innovative thinking as well as new product and service offers. First Generation BPO was largely a labor arbitrage model characterised by a *lift* and *shift* delivery approach. This was quickly superseded by 2nd Generation BPO, which moved beyond shared services in lower cost locations, and began to focus on continuous improvement. Continuous improvement initiatives lasted nearly a decade, and remain the industry standard within BPO offerings. However, progressive service providers and innovative clients are looking beyond continuous improvement and bottom-line focus to find ways to create value for the top line. This is leading to more collaborative relationships between clients and providers.

Other elements of 3rd Generation BPO influence service delivery, such as the increased use of Service Oriented Architecture (SOA) in delivery models and more sophisticated and technical point solutions, as well the shifting relationship between captive shared service centers and BPO models. While these topics are important, the focus of this paper is on one key differentiator of 3rd Generation BPO: the creation of services to address the top line of the client's business. Capgemini's approach in this area is unique: BPO with *Business Insight*.

This fundamental leap forward is the recognition that what was previously seen as just workflow (i.e. the large volumes of transaction processing data inherent in most conventional BPO delivery models), in many cases, is actually a rich seam of value that can be mined to extract hidden benefits. Most importantly, the mining of this value, using *Business Insight* processes with business intelligence tools, can drive top line benefits. For example, the resulting analysis could be used to support revenue recovery or improved customer service.

Conventional, bottom-line focused BPO processing excellence is the starting point and is the foundation of BPO services. But progressive organizations will increasingly seek services that extract additional value. In a later section, this paper describes an example of a utility company where disparate BPO workflows are brought together to provide a rich mix of data that paints a picture of customer behavior. Capgemini's unique *Business Insight* processes enable segmentation of the customer base and the ability to predict which customers are likely to switch to a competitive service provider and when that is likely to occur. The resulting *Business Insight* positively affects the top line through customer retention.

The provision of BPO with *Business Insight* requires a complex set of capabilities and competencies, combining deep industry domain knowledge, unique processes using business intelligence tools, and finally, the ability to close the loop and industrialize the new processes into ongoing day-to-day operations. This level of competency is

only available from service providers with a long and successful track record in the industry. Typically, this is beyond the reach of the commodity provider since it requires investment and focus to build deep industry and sector-specific expertise along with the routine BPO processing skills.

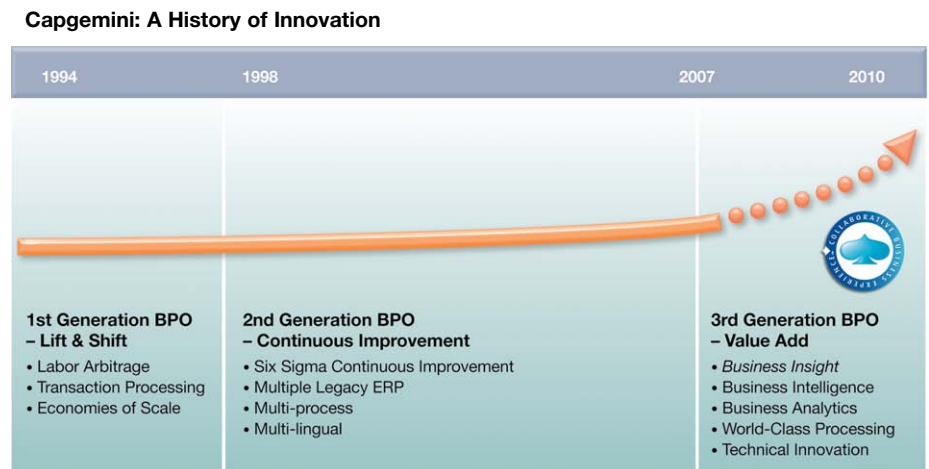
Client maturity and the client’s business objectives will clearly influence the adoption of 3rd Generation BPO. Since these value adding services cannot be provided without investment, it is necessary to develop the contractual relationship in a way that reflects those objectives. Contracts that are focused only on short-term cost savings will not provide the flexibility to realize the more significant, long term benefits of combining top and bottom line improvement strategies.

The demand for basic 2nd Generation, bottom-line focused BPO will not go away – indeed, the bulk of the market demand is likely to remain in this area. The leading BPO vendors cannot ignore the basics and must maintain excellence and world class competence in these fundamentals. Forward-thinking clients will increasingly engage with the service provider who can manage the transition to stable and effective processing – providing optimal bottom-line BPO services with continuous improvement – while also creating the conditions to achieve a competitive advantage on the top line via BPO with *Business Insight*.

## 1. 3rd Generation BPO: The Next Evolution of the BPO Market

The BPO services market has a 15-year track record of evolution. The simple shared services model gave way to a sourcing decision to buy externally. The outsourcer’s value proposition was providing the same services, but at a lower cost. Inevitably, the competitive environment drove the leading vendors to innovate and continuously improve their service offerings. The value proposition has also developed to match the accelerating demands of the buy side, which is under increasing price and globalization pressures.

The evolution of business process outsourcing during the last 15 years can be characterized in three phases or generations.



### 1st Generation BPO – Lift and Shift

Through the mid '90s, the BPO proposition was largely focused on consolidation into a shared service center with labor arbitrage on the transaction processing. The primary objective was to simply reduce cost. Sometimes this has been crudely described as *my mess for less*. Clearly, as a service proposition this model was not going to last long without demands for greater value. Nevertheless, there are still providers in the market operating at this end of the spectrum.

### 2nd Generation BPO – Continuous Improvement

By the end of the '90s, the basic requirements for a competitive service had evolved. Fundamental transaction processing and labor arbitrage were still essentials, but delivery models were maturing, process expertise was deepening and new technologies were emerging to provide point solution support, such as sophisticated Optical Character Recognition (OCR) scanning engines. This 2nd Generation can be described as the era of Continuous Improvement.

Key service provider capabilities included the ability to transition complex processes into low cost locations, while providing process re-engineering, improvements in productivity and quality, as well as incremental gains on a continuous basis. During this period, work scopes also expanded from task-focused projects to full-scope services in single towers such as Finance and Accounting (F&A). Consequently, service providers now must operate in an increasingly specialized market. Maturity of services development has matched confidence in the buy side, prompting clients to hand over more complex processes.

Such complex projects might include multiple processes, multiple languages and more often than not, multiple instances of a primary Enterprise Resource Planning (ERP) package, such as SAP, alongside other legacy ERP systems. In a contemporary multi-national BPO project, it is not unusual to find a legacy integration of SAP, Oracle, PeopleSoft and Microsoft spreadsheets and more, distributed across more than 20 countries and 20 languages. Few vendors can successfully deliver these services and achieve continuous improvement at this level of complexity.

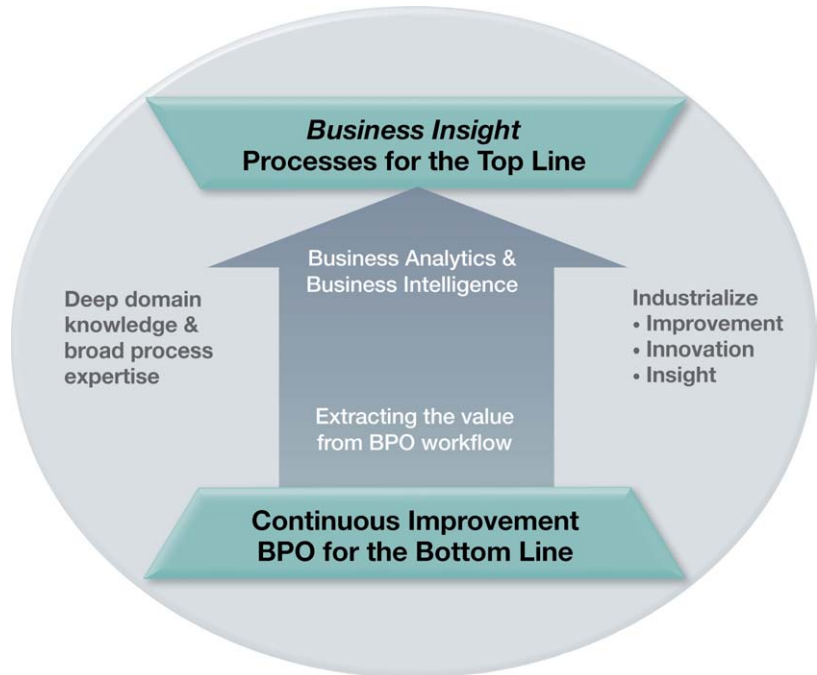
## 2. 3rd Generation BPO: Value Added Services for the Top and Bottom Lines

More and more organizations now see the BPO services model as a way to both improve operational performance and create competitive advantage through processing excellence. Second Generation BPO, which focused on delivering bottom-line efficiencies, is becoming an essential and stable component of efficiently operating global corporations. The leaders in BPO services will continue to improve and refine the basic BPO model to deliver greater value to the bottom line.

Innovative thought leaders in the BPO services market, such as Capgemini, are already developing a much broader service. This includes the delivery of improvements to both the top line and the bottom line of the client's business. Both halves of the supply/demand equation are driving this evolution. The buy side has an insatiable appetite for efficiency and effectiveness, while the supply side is operating in an increasingly competitive market where there is rapidly developing polarization between service providers. On the one side there are providers who are focused on commodity services, while the market leaders add top-line value in addition to process excellence and bottom-line savings.

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**BPO with *Business Insight*: Improving the Top and Bottom Lines**



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Other facets of 3rd Generation BPO include technology developments in delivery support, more sophisticated point solutions, increasing use of automation, and trends such as Software as a Service (SaaS). But these areas are topics in their own right and will not be addressed in this paper. Many of these features are maturing aspects of existing trends. Over time, labor arbitrage is a steadily eroding advantage and technical solutions and tools can be purchased by anyone. The forward-thinking BPO service provider understands that the balance needed is the ability to provide clients with competitive advantage as well as operational efficiency. Plus, they must be able to do this in a way that delivers a tailored front end solution while exploiting the best and optimal practices from industrialization and standardization. In this paper we will concentrate on the added value associated with mining value from basic BPO workflow.

The ability to deliver positive impact to the top line of the client's business, as well as fulfill all the basics of continuous improvement for the bottom line, is the essence of 3rd Generation BPO. Capgemini calls this BPO with *Business Insight*.

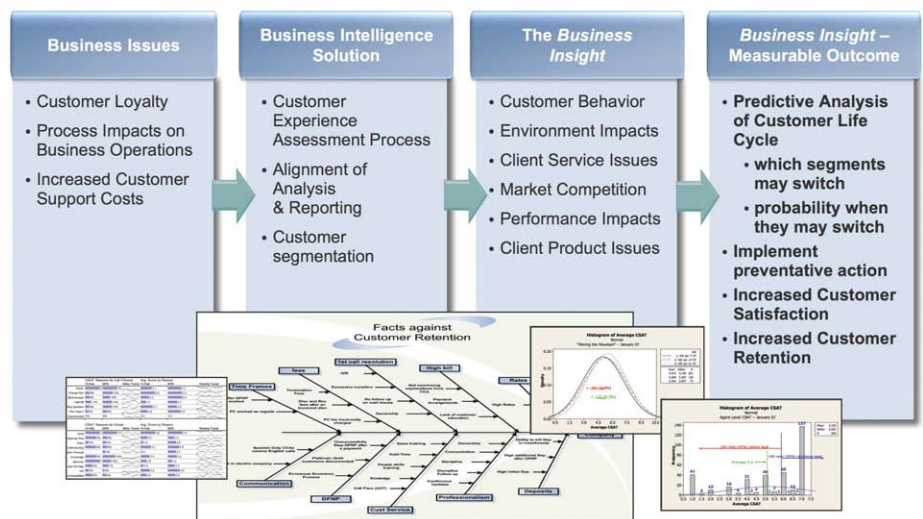
A key facet of 3rd Generation BPO is the recognition that there is a twin opportunity when processes are transitioned to a service provider. The first is the opportunity to improve the processes, reduce the operating costs, relocate, re-engineer and deliver productivity and quality with continuous improvement. These improvements are largely bottom-line focused. The second is to recognize that the BPO provider is agglomerating disparate and often previously unconnected data – often from different client departments – during the service provision. These transaction volumes hold a potential seam of value that can be analyzed to extract benefit for the top line.

### 3. Case Study

#### A Utility Company Leverages BPO with *Business Insight* and Gains Top-line Value through Customer Retention

In the energy and utilities market, and in other markets such as telecommunications and financial services, customers have multiple service providers to choose from. The potential for switching to another provider, sometimes known as customer churn, is significant. When a customer has a poor experience, he or she may elect to switch to another provider. The company will lose a customer and the associated revenue stream. With millions of customers, the commercial risk is enormous. This large utility company was having customer- and product-loyalty issues, resulting in churn and increased customer support and service costs.

#### *Business Insight*: Affecting the Top Line for a Large Utility Company



As a BPO service provider to this client, Capgemini already handled a significant portion of the more complex queues of the company's inbound call center traffic and also provided back office services for billing, F&A and revenue management. Capgemini had access through our Customer Care & Intelligence BPO services to the whole customer experience via the call logs, as well as the payments record, billing data, and other customer interactions. This put Capgemini in a position to unlock the value of that data.

Capgemini built a tailored process combined with a business intelligence tool to analyze the hidden value in the data. We could therefore take the final step of turning this business intelligence into action by closing the loop on the *Business Insight* process. Our analysis enabled us to segment the customer base and predict which segments were likely to churn and when. We then worked with the client to refine the upstream experience and handling of the customer. Typically, this approach may take the form of modifications to the inbound call handling process, but it may also drive the client to make modifications to its products and services, such as simplification of a payment plan and other customer-facing processes.

With Capgemini's predictive analysis of the customer lifecycle as a foundation, the utility company was able to increase customer loyalty and reduce churn by improving transaction handling time and enhancing the customer contact experience, while also decreasing customer service costs.

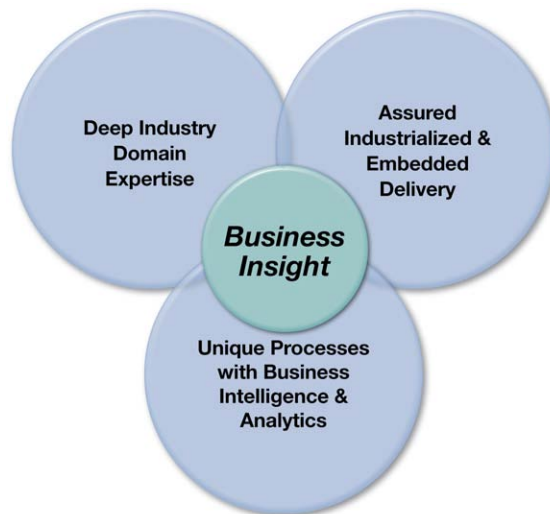
This case is a prime example of how organizations can harness the benefits of BPO for both bottom-line and top-line value, resulting in measurable return on investment (ROI). Since one percent on the revenue stream has a much greater overall impact than one percent savings off the bottom line, organizations can achieve excellent ROI by applying this unique BPO approach.

#### 4. Delivering Top Line Benefits from a Bottom-line Focused Business Model

Organizations must first understand that BPO with *Business Insight* is not a typical consulting project, a single exercise, or a report. Capgemini's BPO services model goes beyond traditional services to ensure the long-term delivery of client benefits. BPO with *Business Insight* is an operational activity. It is proactive and not a passive report, delivered through a combination of operational expertise and collaboration with the client.

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##### **Business Insight Components**



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A key facet of Capgemini's approach to BPO delivery is the recognition that *one size does not fit all*. This means that some tailoring to suit the individual characteristics of each client is essential, along with an industrialized approach to a continuous improvement throughout the life of the contract. The ability to deliver *Business Insight* is beyond the reach of basic BPO service providers.

This tailored approach with the economic advantages of process standardization and a more industrialized delivery addresses both client-specific needs and economies of scale.



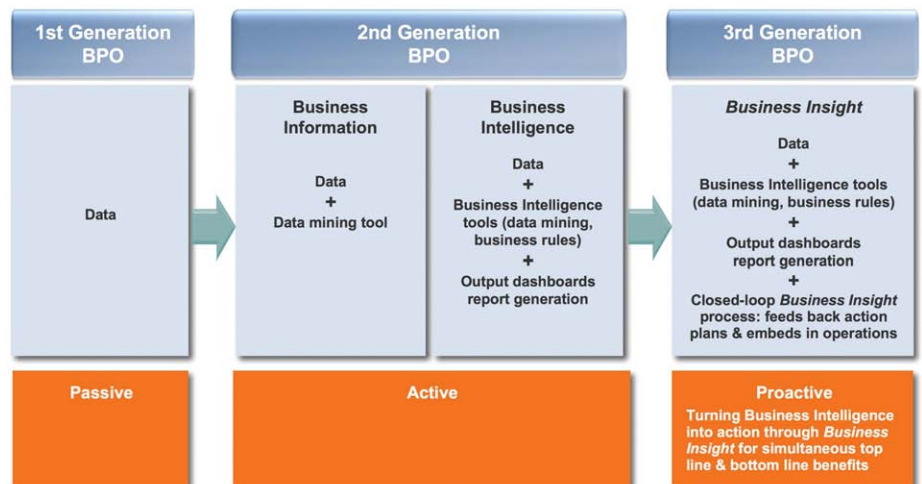
Implementing business intelligence processes to deliver value to the top line and then following through by industrializing the process into ongoing day-to-day operations requires a deep understanding of both the client's processes and the client's business environment. Consequently *Business Insight* delivery capability comes from a combination of:

- Deep industry domain knowledge
- Broad process expertise
- Benchmarking capabilities
- Business intelligence tools and business analytics competency
- Methodologies and global infrastructure to industrialize the insight into day-to-day operations

## 5. *Business Insight*: Turning Business Intelligence into Action

It is important to grasp the major step between business intelligence and *Business Insight*. There are many providers of good business intelligence tools and there are even BPO service providers that offer access to these tools with the service. But this is analogous to giving someone a stethoscope and scalpel and expecting they can perform surgery.

### ***Business Insight*: Turning Business Intelligence into Action**



The two key requirements are that a) the data should be in a position to be worked upon – i.e. stable and accurate – and b) the operatives doing the analysis must be deeply knowledgeable in the process and the client's business.

BPO service providers have an advantage over business intelligence tools suppliers and external consultants. BPO providers already manage the transaction volumes and have the operational processing expertise and familiarity with the day-to-day traffic flows and content. This means the re-engineering and data cleansing will have already taken place, thus ensuring the stability, consistency and accuracy needed for the *Business Insight* analytics to have impact.

The BPO practitioner brings not only the business intelligence tool, but also a level of knowledge from thousands of man-years of industry expertise. When combined with process expertise and access to the combined data sets, this provides an unprecedented combination of excellence in processing the workflow and also in analyzing the content of the workflow to release the hidden value.

The final key comes by moving from business intelligence to *Business Insight*. This is the difference between being informed (being provided with business intelligence) and being enabled (closing the loop by taking the output from the business intelligence and analyzing it in the context of the client's operations and business). This allows the service provider and client to work much more collaboratively and act upon the information to implement remedial works, process changes and additions. In some cases, client product changes will need to be made to prevent a poor service or process issue from reoccurring or to make improvements to benefit sales.

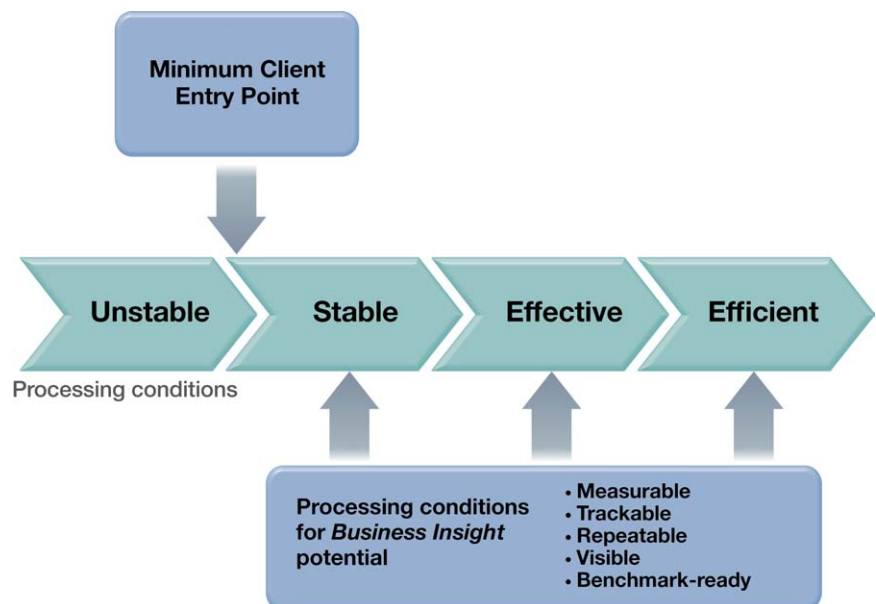
The *Business Insight* process starts with the transaction volume in the day-to-day BPO workflow processes and builds visibility, often involving agglomeration across disparate data sets. This action is supported by a unique process that uses business intelligence tools to extract and analyze the value in the data to unlock the potential benefit from the workflow. The result: *Business Insight* is delivered to the client by closing the loop to the top line.

## 6. Maturity and Readiness

Not all businesses will be ready for 3rd Generation BPO on day one of a BPO service. For most, their processes will not be stable enough and the transparency into transaction volumes will be insufficient to provide adequate benchmarking for the application of *Business Insight* processes.

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### Key Conditions for *Business Insight* Development



Therefore, organizations should expect their BPO service provider to offer assessment and readiness support. Rigorous transition programs, process efficiency models and continuous improvement methodologies will help produce the stability, effectiveness and efficiency associated with excellence in 2nd Generation BPO. This will create the potential for further exploitation via *Business Insight* processes which are part of 3rd Generation BPO. Irrespective of client readiness or maturity, there is the issue of the client’s business objectives. The BPO service must be tailored to the client’s objectives and there will always be those whose primary goal is simply operational cost-cutting. In such cases, a focus on bottom-line improvement is sufficient.

The BPO service provider will need to make significant investments to deliver these additional top-line focused innovations. It is, therefore, essential that two key criteria be in place before committing to BPO with *Business Insight*. As discussed above, the data must be in a robust, measurable and stable enough condition for the *Business Insight* analysis. The second key criteria is that the client’s business objectives and the service provider’s objectives must be aligned. The primary resource that fuels innovation and *Business Insight* is the workflow volume of conventional BPO services. Investment will be required, so the contract will need to reflect this in the business plan.

**Capgemini’s BPO Solution Portfolio**

Services Portfolio	Finance & Accounting	Procurement Services	Customer Care & Intelligence	Assurance Management	Knowledge Process Outsourcing
Full Scope BPO Services	<ul style="list-style-type: none"> <li>▪ Accounts Payable</li> <li>▪ Travel &amp; Expenses</li> <li>▪ Accounts Receivable                             <ul style="list-style-type: none"> <li>– Credit Management</li> <li>– Order Capture</li> <li>– Invoicing</li> <li>– Cash Applications</li> <li>– Collections</li> </ul> </li> <li>▪ General Accounting                             <ul style="list-style-type: none"> <li>– Journals</li> <li>– Reconciliations</li> <li>– Fixed Assets</li> <li>– Cost Accounting</li> <li>– Inter-company</li> <li>– Reporting</li> </ul> </li> <li>▪ Planning &amp; Performance Management</li> <li>▪ Compliance Management</li> </ul>	<ul style="list-style-type: none"> <li>▪ Category Spend Management</li> <li>▪ Purchase to Pay Process</li> <li>▪ eSourcing Factory</li> <li>▪ Tactical &amp; Strategic Support</li> <li>▪ Supplier Management</li> <li>▪ Inventory Management</li> <li>▪ Fulfillment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Contact Center Transformation</li> <li>▪ Operations Business Intelligence</li> <li>▪ Touch Point and Self Service Optimization</li> <li>▪ Advanced Technology Development</li> <li>▪ Insight Marketing</li> </ul>	<ul style="list-style-type: none"> <li>▪ SOX Compliance</li> <li>▪ Design Effectiveness                             <ul style="list-style-type: none"> <li>– Documentation</li> <li>– Walkthroughs</li> <li>– Control Deficiency</li> </ul> </li> <li>▪ Operating Effectiveness                             <ul style="list-style-type: none"> <li>– Testing</li> <li>– Report Operating</li> </ul> </li> <li>▪ Entity Level Assessment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Master Data Management</li> <li>▪ Financial Data Management</li> <li>▪ Intelligent Electronic Technical Manuals</li> <li>▪ Interactive Service Portals</li> <li>▪ Content Management</li> <li>▪ Authoring</li> <li>▪ Illustration</li> <li>▪ Publishing Services</li> <li>▪ Localization</li> </ul>
Business Insight	<ul style="list-style-type: none"> <li>▪ Concurrent Audit</li> <li>▪ Revenue Recovery</li> <li>▪ Ethical Fraud Testing</li> </ul>	<ul style="list-style-type: none"> <li>▪ Spend Intelligence</li> <li>▪ Non Compliance Analysis</li> <li>▪ Supplier Intelligence</li> </ul>	<ul style="list-style-type: none"> <li>▪ Speech/Data Analytics</li> <li>▪ Customer Experience Assessment</li> <li>▪ Customer Channel Analysis</li> </ul>		

## 7. Contracting for BPO with *Business Insight*

BPO with *Business Insight* may not always be appropriate for the client at the start of a project. As stated earlier, the scope of the services are influenced by maturity of the client’s business and processes and also the client’s business objectives. In some cases, for example, over a seven-year BPO contract, client readiness may only be possible after a number of years into the project. Consequently, the contract needs to be constructed in a way that is flexible enough to accommodate expected maturation. The provision of BPO with *Business Insight* requires the service provider to invest in innovation, which includes highly-skilled industry- and domain-knowledgeable staff who are also process experts in the client’s field. In addition, investments in business intelligence tools and other infrastructure may be necessary. This means it’s essential that the business case for investment works for both the client and the service provider.

Innovation has a price tag. Driving the cost down to an absolute minimum at project onset may result in the biggest possible cost reduction in the short term, but is more likely to result in missed business gain later in the contract.

Taking the long-term view of ROI into account, it is more likely that building in business benefit to the top line through *Business Insight* will take the form of a collaborative approach between service provider and client. Therefore, a shared risk-and-reward pricing strategy will reflect a partnering style and deliver the appropriate behavior from both parties. The BPO provider commits to top line key performance indicators (KPIs) for the client. This is only possible in cases where the transaction volume under management is the right data to create the potential value and is stable enough to support analysis. In addition, the client must be committed to allow the service provider to influence the business outcome. A shared risk-and-reward pricing model is the best way to support such an outcome. The benefits of this closer working relationship can be significant. BPO with *Business Insight* does require a much greater level of intimacy between service provider and client, but with the additional benefit of greater ROI.

## 8. Conclusion

Third Generation BPO is a natural evolution of the BPO market as both the buy side and services side reach a new level of maturity. Extracting value from BPO workflow through *Business Insight* to benefit the top line is one of the leading components of 3rd Generation BPO.

These 3rd Generation developments are accelerating the polarization of the BPO service provider market into those at the top end of the value chain and those focused on commodity service provision. The resulting inflection point created by this polarization marks the start of the new area of 3rd Generation BPO.

The level of capability, defined by the depth and breadth of domain expertise will continue to drive further polarization in the BPO services market. This depth and breadth, combined with the transformational expertise to industrialize *Business Insight* into day-to-day operations, demands a successful track record in the BPO industry and investment in sector-specific expertise that is typically beyond the reach of the commodity BPO player.

However, the demand for the basics of 2nd Generation bottom-line focused BPO will not go away – indeed, the bulk of the market demand is likely to remain in this area. The leading BPO vendors cannot ignore the basics and must maintain excellence and world class competence in these fundamentals. The enlightened client will increasingly look to the future and engage the service provider who has fully embraced 3rd Generation BPO. This will provide optimal bottom-line BPO services with continuous improvement while also creating the necessary conditions to achieve a competitive advantage on the top line via BPO with *Business Insight*.

To learn more about BPO with *Business Insight* from Capgemini, please visit [www.capgemini.com/bpo](http://www.capgemini.com/bpo).



## About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience.

Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-

focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs more than 80,000 people worldwide and reported 2006 global revenues of 7.7 billion euros.

More information about our services, offices and research is available at [www.capgemini.com](http://www.capgemini.com).

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