

Performance Impact of Business Process Outsourcing

- A theoretical and practical perspective on BPO Business Value -

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Agenda

1. Definition and understanding of Business Process Outsourcing
2. Key drivers and benefits of Business Process Outsourcing
3. Market forecast and maturity level
4. Competitor overview and major deals
5. Key leading risks and market restraints
6. Research objectives with Steinbeis University and results

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What is Business Process Outsourcing?

- Various definitions and unclear scope -

Various definitions make it difficult to generate a “corporate understanding”

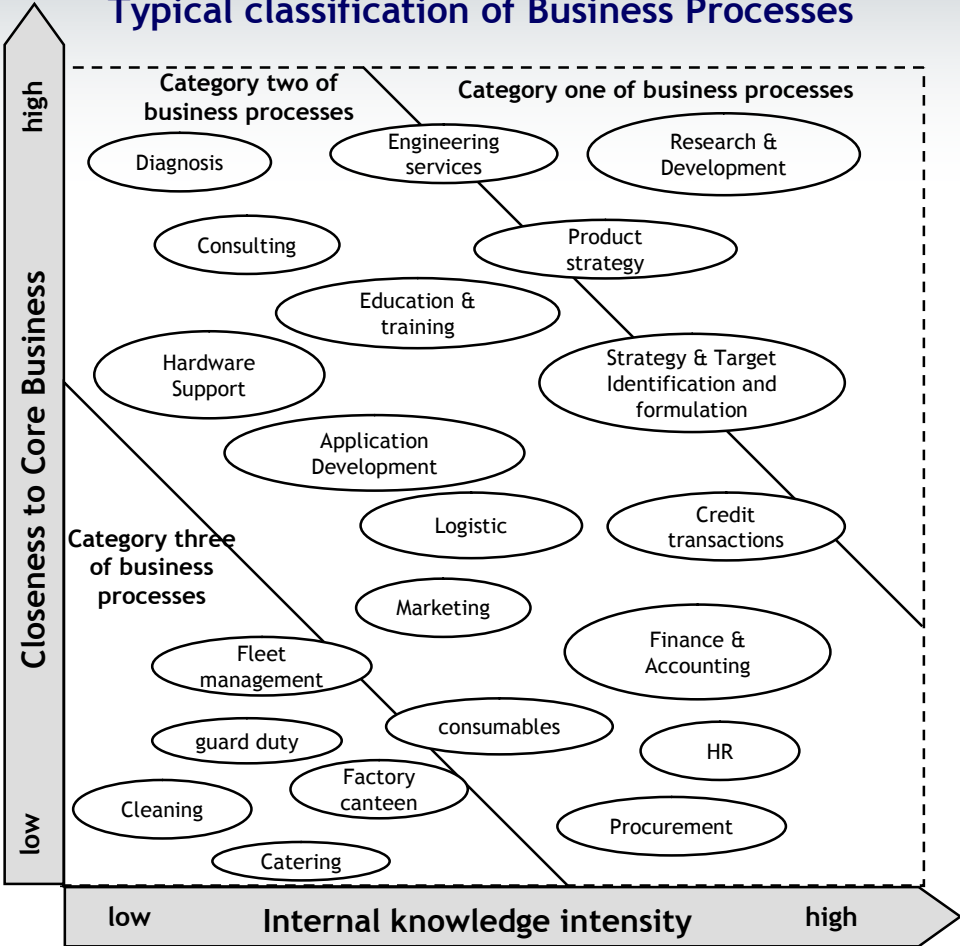
Scope

Currently BPO contains of various definitions, with different scope and complexity

Institution	Definition
<ul style="list-style-type: none">▪ Gartner Group▪ PAC	Gartner and PAC defines Business Process Outsourcing (BPO) as the delegation of one or more IT intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes, based on defined and measurable performance metrics.
<ul style="list-style-type: none">▪ IDC▪ Various others	IDC and Others defines Business Process Outsourcing (BPO) as the delegation of one or more integrated business processes to an external provider that, in turn, owns, administrates and manages the selected processes

Scope of Business Process Outsourcing

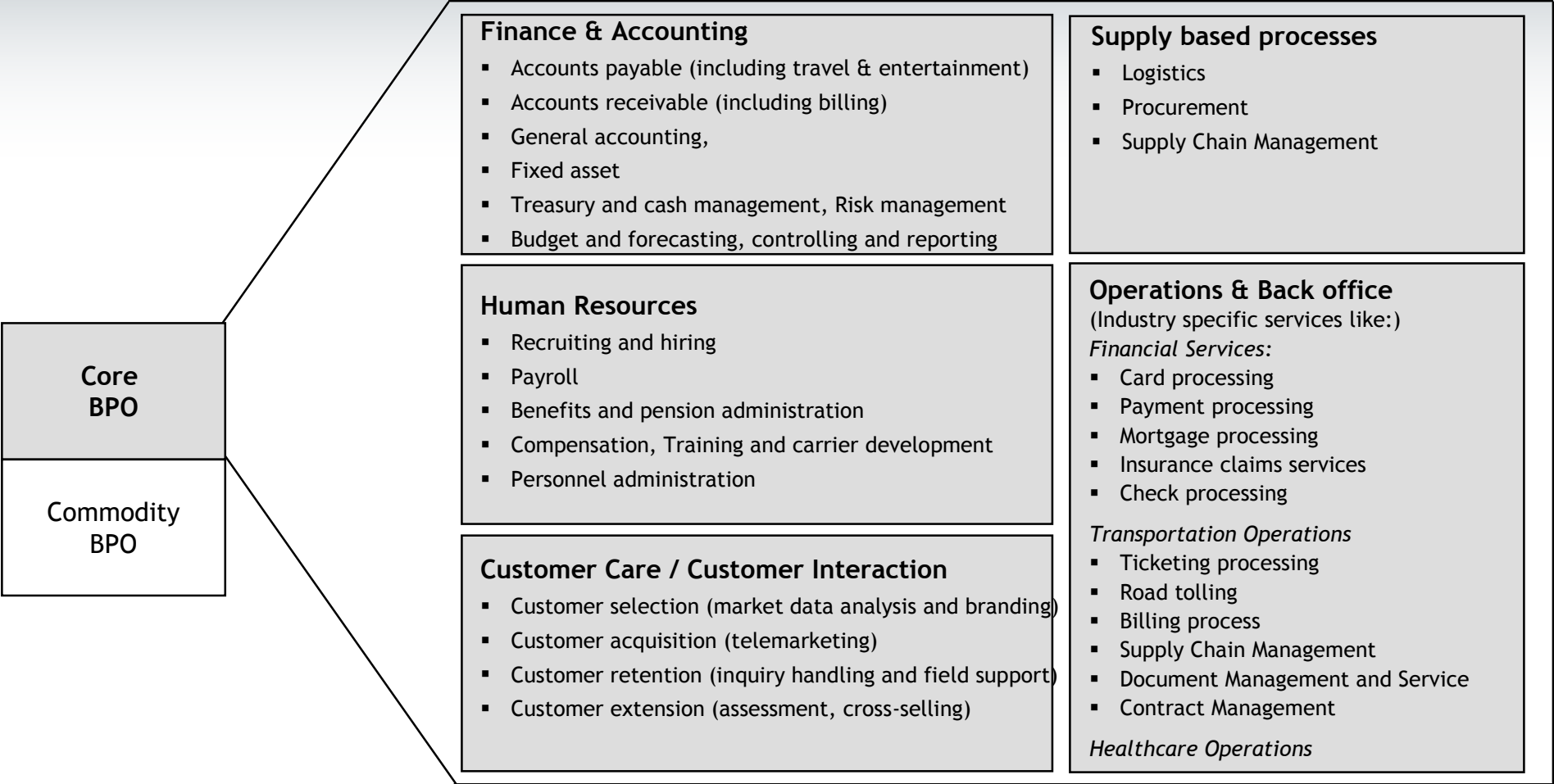
Typical classification of Business Processes



Typical Processes for BPO

- Finance & Accounting
 - Human Resources
 - Supply based processes (e.g. procurement, logistics)
 - Customer Care / Customer Interaction (e.g. Call Center)
 - Operations & Back office
- } Core BPO
-
- Fleet Management
 - Catering
 - Factory canteen
- } Commodity BPO

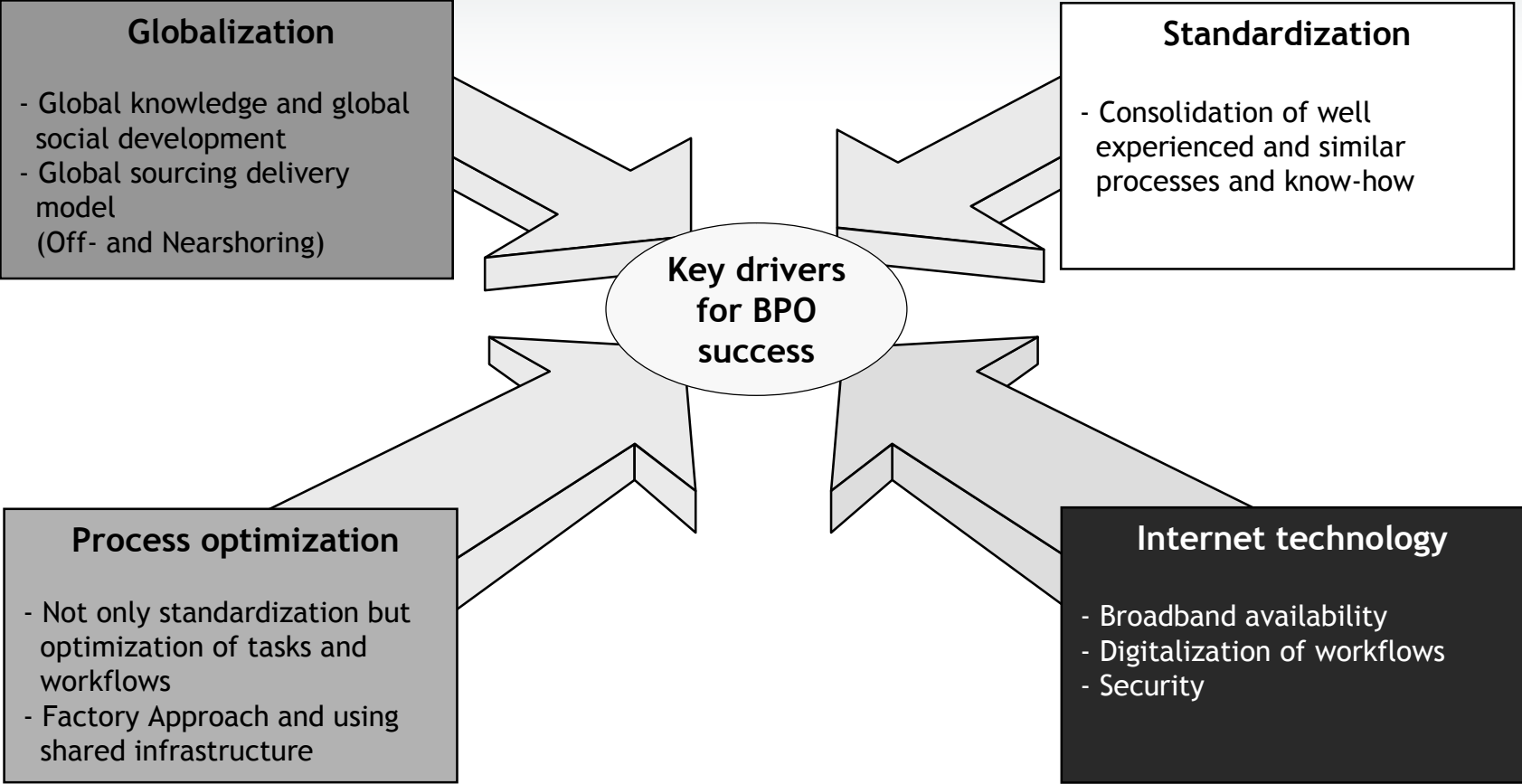
Details about selected Business Process Outsourcing activities



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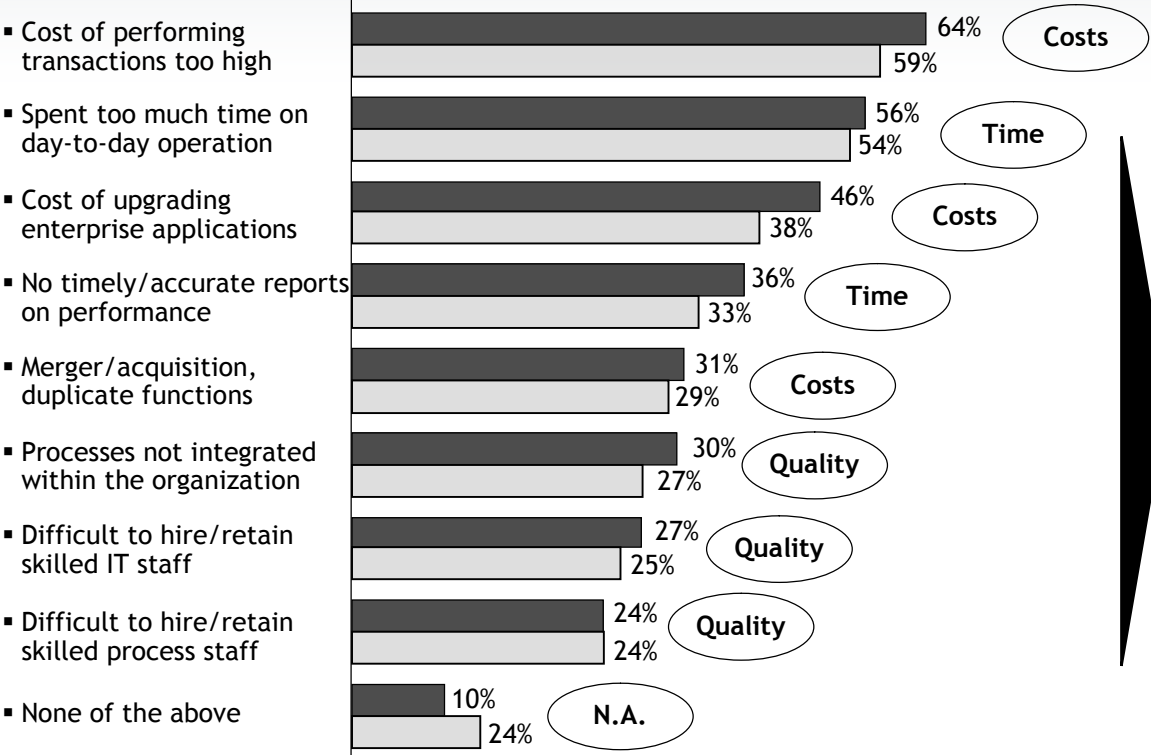
Why Business Process Outsourcing?
- Drivers, expectations and possible benefits -

Basically there are four key drivers for the success of Business Process Outsourcing



Comparable reasons like for Application Outsourcing leading companies to BPO

Key Problems Leading to BPO



Expected Benefits

Benefits	Rating
1. Reduce costs	5.6
2. Focus on core business	5.0
3. Improve operational service levels	4.9
4. Increased organizational agility	4.4
5. Continuous leading-edge business process expertise	4.3
6. Consolidate data into one system	4.2
7. Shorten implementation time	4.1
8. Re-engineer business process	4.0
9. Integrate disparate systems or applications	3.9
10. Migrate to new-generation systems or applications	3.7
11. Transfer staff to the outsourcer	3.6
12. Consolidate the number of suppliers	3.5
13. Supplement staff/resources	3.2

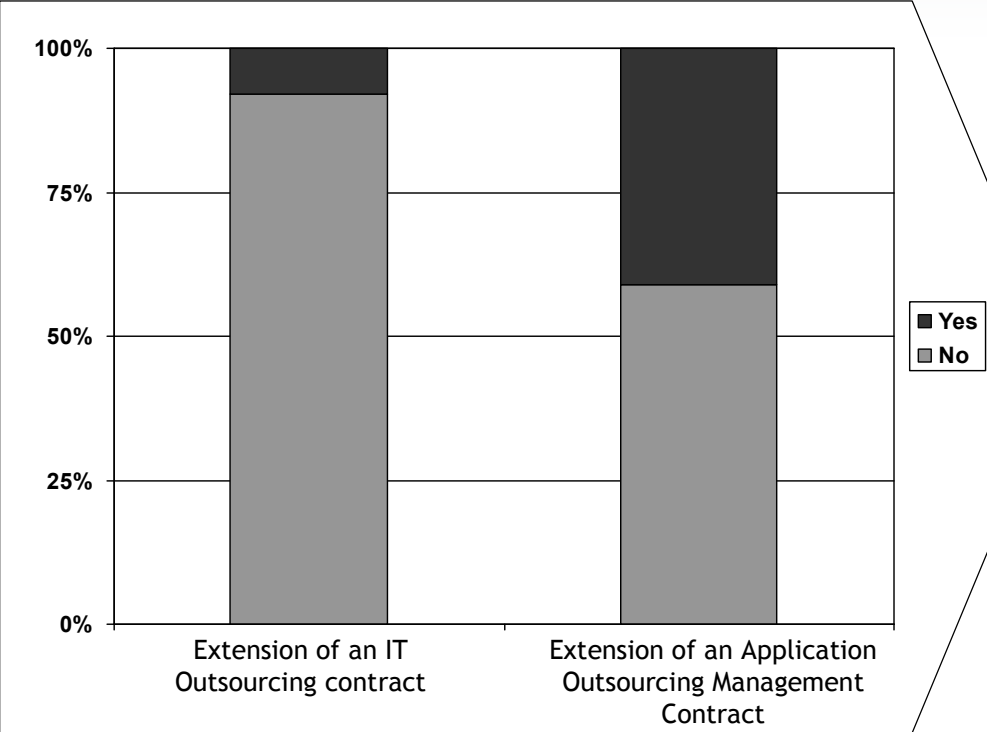
BPO implemented
 Considering BPO in the future

N=216; Gartner User Survey: Business Process Outsourcing, Western Europe, 2004

But BPO is a new business and not the continuity of IT-Infrastructure Outsourcing

Only a few BPO Contracts are an extension of IT Outsourcing

Percentage of Respondents (n=220)



- 1 BPO decision-makers come purely from the business side. IT management involvement in BPO decisions is minimal. Mostly the CFO (37%) or the CEO (36%) are the executive sponsors of the BPO project. IT Management only in < 3% of the projects
- 2 High maturity of the commodity BPO market with established providers and processes.

The Core BPO market is comparable to the commodity market in a early stage

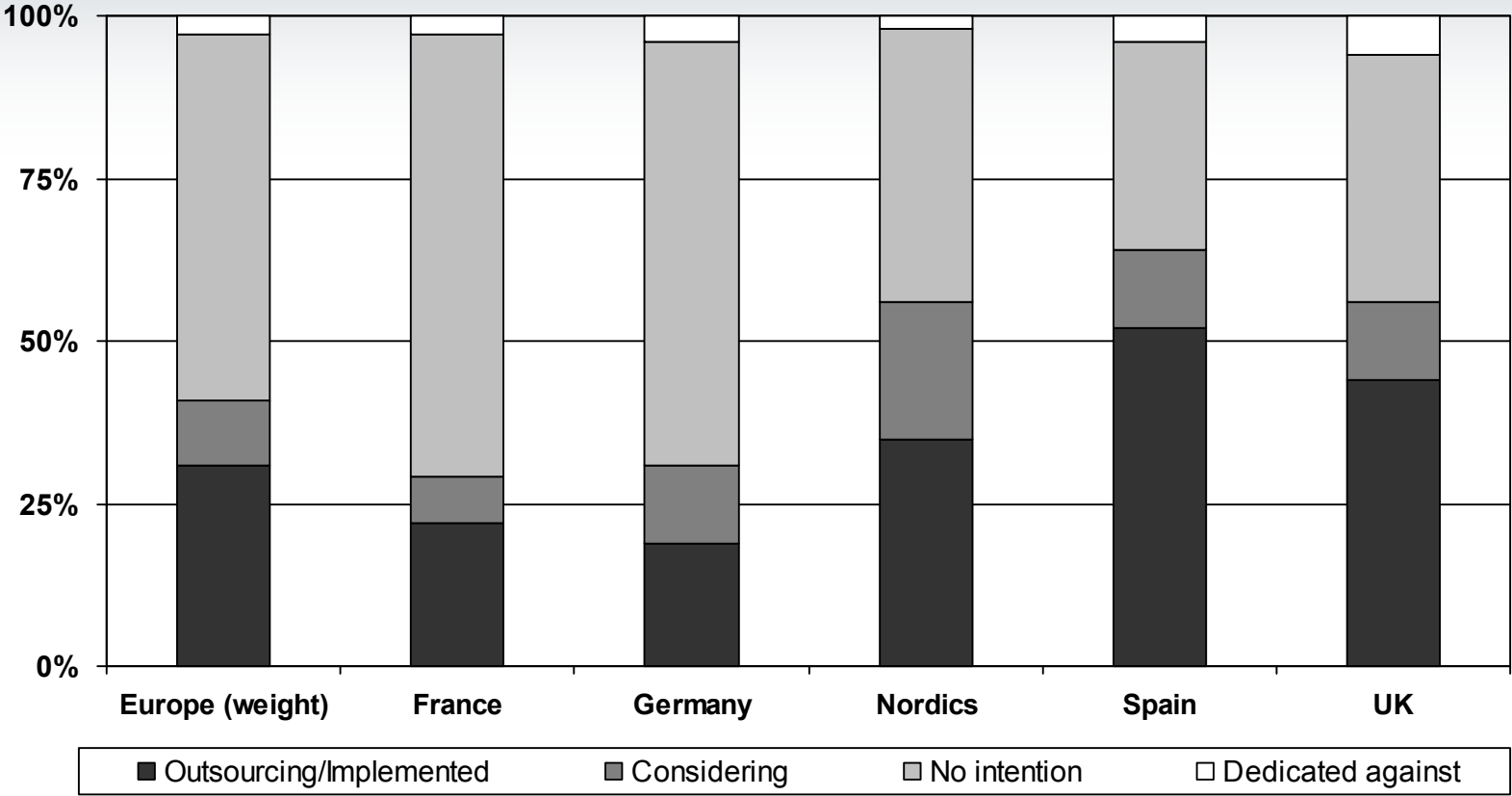
Source: Gartner Dataquest, April 2005

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Market overview Business Process Outsourcing

- Market forecast and maturity level -

European Market adoption of Business Process Outsourcing



- Varied BPO acceptance across Europe
- In every country over 25% of the respondents have BPO already implemented or considering BPO as problem solution
- UK and Spain seems to be early adaptors

n = 632 respondents; Gartner Dataquest, 2004

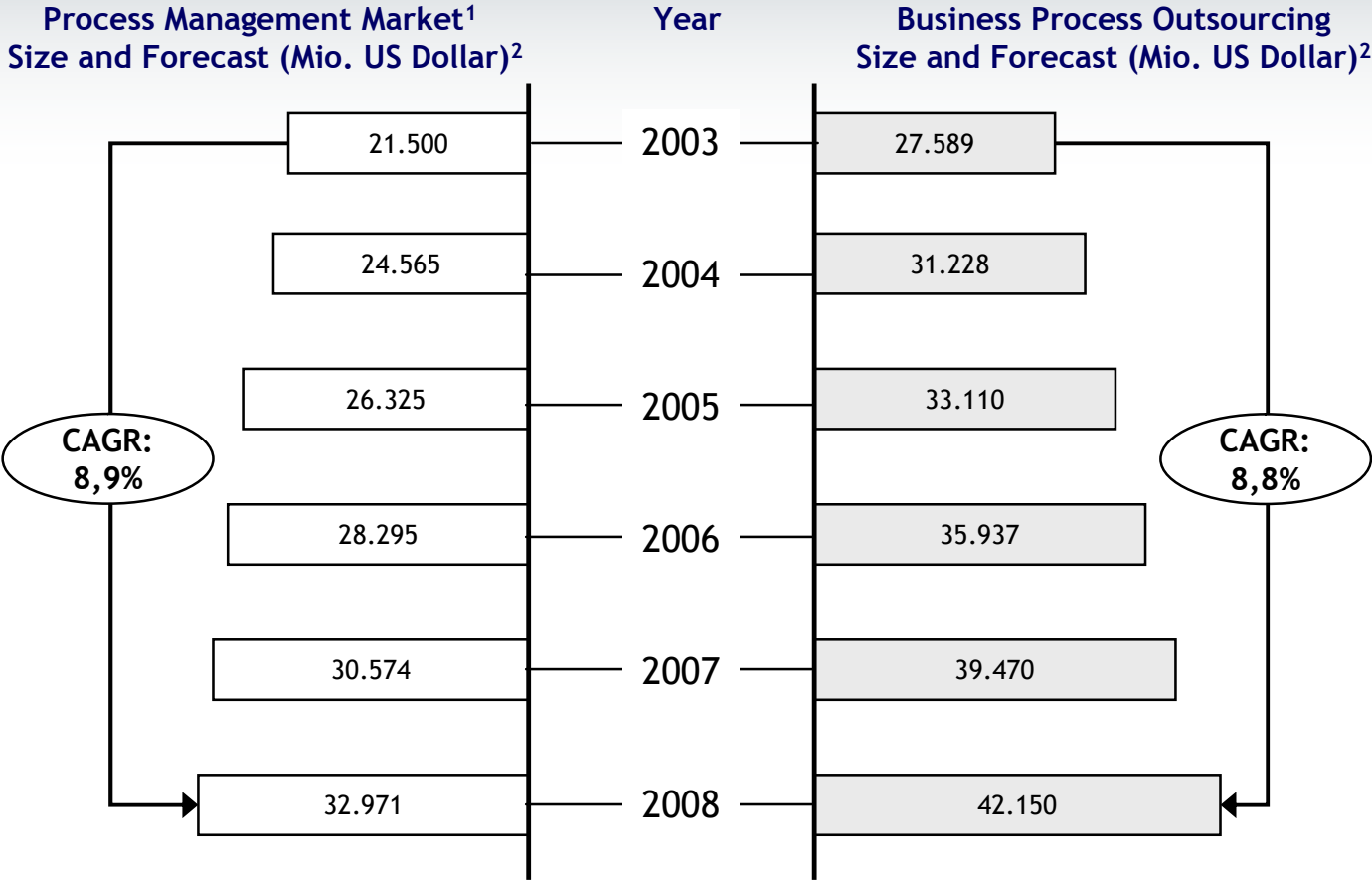
Total BPO market size and forecast, 2003-2008

BPO Market Size and Forecast Western Europe [Data in millions of US Dollar]

	2003	2004	2005	2006	2007	2008	CAGR 2003-2008
Enterprise Services							
<i>Administration</i>	1.346	1.537	1.603	1.740	1.911	2.040	8,7%
<i>Finance and Accounting</i>	2.895	3.407	3.651	3.976	4.366	4.660	10,0%
<i>Human Resources</i>	5.174	5.978	6.325	6.851	7.525	8.035	9,2%
<i>Payment Processing</i>	1.620	1.881	1.996	2.168	2.382	2.545	9,5%
Operations	5.518	6.089	6.456	6.828	7.499	8.008	7,7%
Supply Management	9.656	10.617	11.257	12.218	13.420	14.331	8,2%
Customer Care & Back office	1.379	1.718	1.821	2.156	2.368	2.529	12,9%
Business Process Outsourcing (TOTAL)	27.589	31.228	33.110	35.937	39.470	42.150	8,8%

Source: Gartner Group Dataquest February 2005

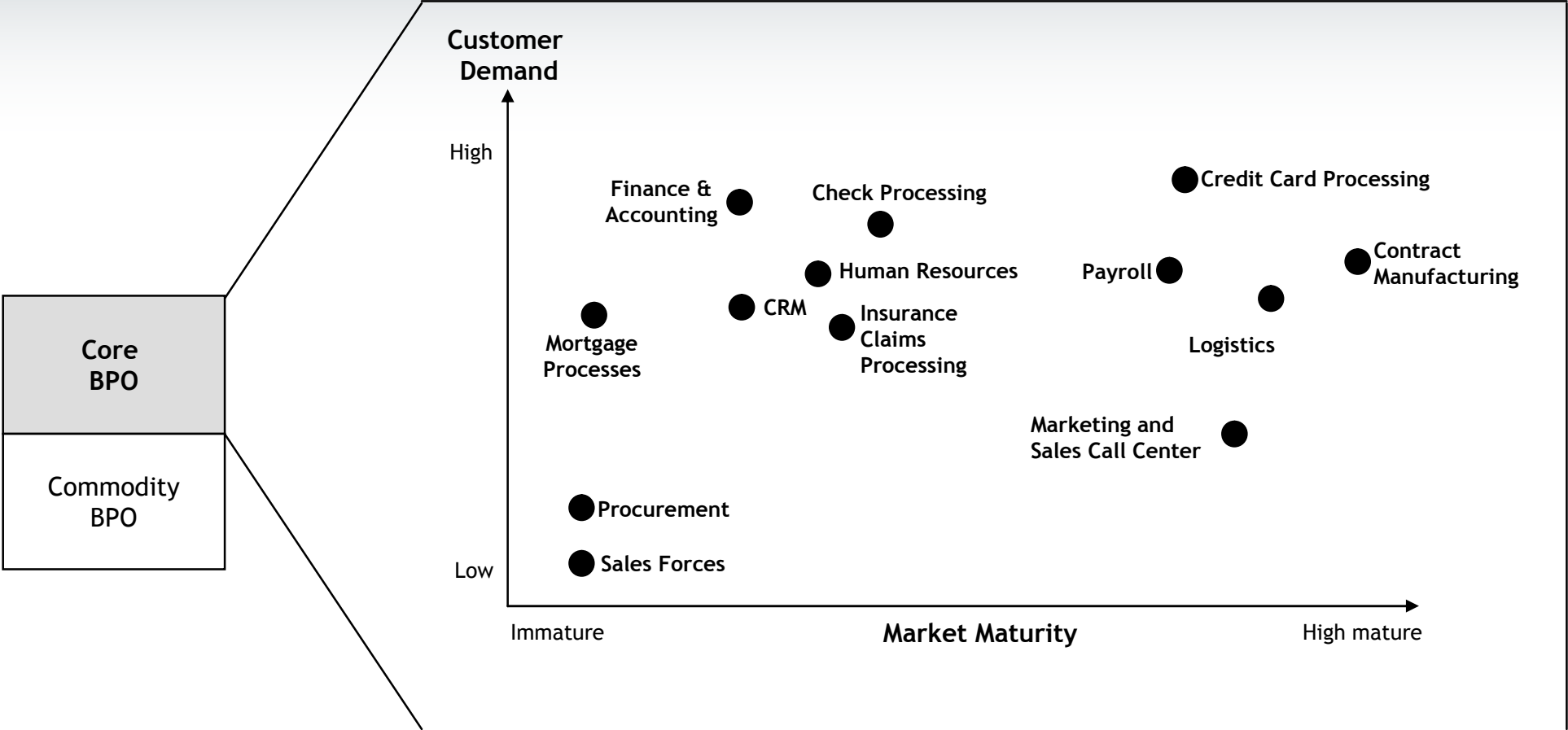
Comparison of the Process Management¹ and the BPO market for Western Europe



¹ Associated IT service revenue (like IT consulting and system integration that support outsourced process activities)

² Source: Various Gartner Dataquest Reports, 2004

Core BPO market demand und maturity



Source: Gartner Dataquest, Market Study BPO 2006

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Business Process Outsourcing Service Providers

- Competitor overview and major deals in Western Europe -

Major HR BPO Deals in Western Europe

Company	Customer	Sector	Coverage
Accenture	Telecom Italia	Communications	Italy
ACS	Motorola	Communications	Worldwide
Exult	BP	Oil and Gas	United States/United Kingdom
Accenture	BT Group	Communications	United Kingdom
Accenture	O2	Communications	United Kingdom
Accenture	Cable and Wireless	Communications	United Kingdom
xchanging	BAE Systems	Aerospace	United Kingdom
EDS	BBC	Media and Communications	United Kingdom
T- Systems	Deutsche Telecom	Communications	Germany
ADP	Dräger	Industrial products	Germany
ADP	Atos Origin	IT Services	France, Netherlands
ADP	Yves-St-Laurent	Cosmetics	France, Germany, Netherlands
ADP	Agilent	Electronics	Europe
EDS	Infineon	High-tech	Germany
IBM	Procter & Gamble	Manufacturing	Worldwide
T-Systems	Deutsche Telekom	Communications	Germany
Accenture	Deutsche Bank	Banking	Germany
T-Systems	T-Mobile	Communications	Germany
T-Systems	Kabel Deutschland	Communications	Germany
Fidelity International	ABB	Manufacturing	Pan-European
New Source	Bahlsen	Food	Germany

Major F&A BPO Deals in Western Europe

Company	Customer	Sector	Coverage
Accenture	Rhodia	Chemicals	Pan-European
Accenture	North Sea Oil	Oil	Pan-European
Accenture	RCI	Transport and Travel	Pan-European
Accenture	Exel	Logistics	Pan-European
Equitant	Cisco	Communications	EMEA
Equitant	Lucent	Communications	EMEA
Equitant	Microsoft	IT	EMEA
Xansa	BT	Communications	United Kingdom
Xansa	O2	Communications	United Kingdom
Accenture	Thomas Cook	Transport and Travel	Pan-European
Accenture	Cable & Wireless	Communications	United Kingdom
ACS	General Motors	Manufacturing	Worldwide
ACS	Ingersoll-Rand	Manufacturing	Worldwide
ACS	Honeywell	Manufacturing	Worldwide
EDS	Abbey	Finance	
EDS	20 Top Clearing House	Communications	Multiple European Countries
Intellenet	JP Morgan Chase	Banking	United Kingdom
Capgemini	Shell	Energy	Benelux
Capgemini	KLIQ BV	Local Government	Benelux
Xansa	Dept of Health, UK	Healthcare	United Kingdom
Accenture	Pitney Bowes	Manufacturing	Pan-European

Overview of the major European BPO players and core activities (1/2)

Type of Service	Service Providers
Enterprise Services	
HR	Arinso, Accenture HR Services, ADP, ACS, EDS, T-Systems, Mellon, Liberata, IBM, Hewitt Associates, Capita
Payroll	Arinso, ADP, Ceridian-Centrefile, LogicaCMG, Raet, Hewitt Associates, HP, Capita, EDS, Accenture HR Services
Finance and accounting	Datev, Xchanging, IBM, ACS, Accenture, Liberata, HP, Equitant, EDS, Vertex, Xansa, Capgemini, Hewitt Associates
Customer Interaction Services	
Customer interaction services	Vertex, BT, Liberata, Patni, EDS, CSC, CGEY, Convergys, Amdocs, Wipro, Sykes Enterprises, Sitel

Overview of the major European BPO players and core activities (2/2)

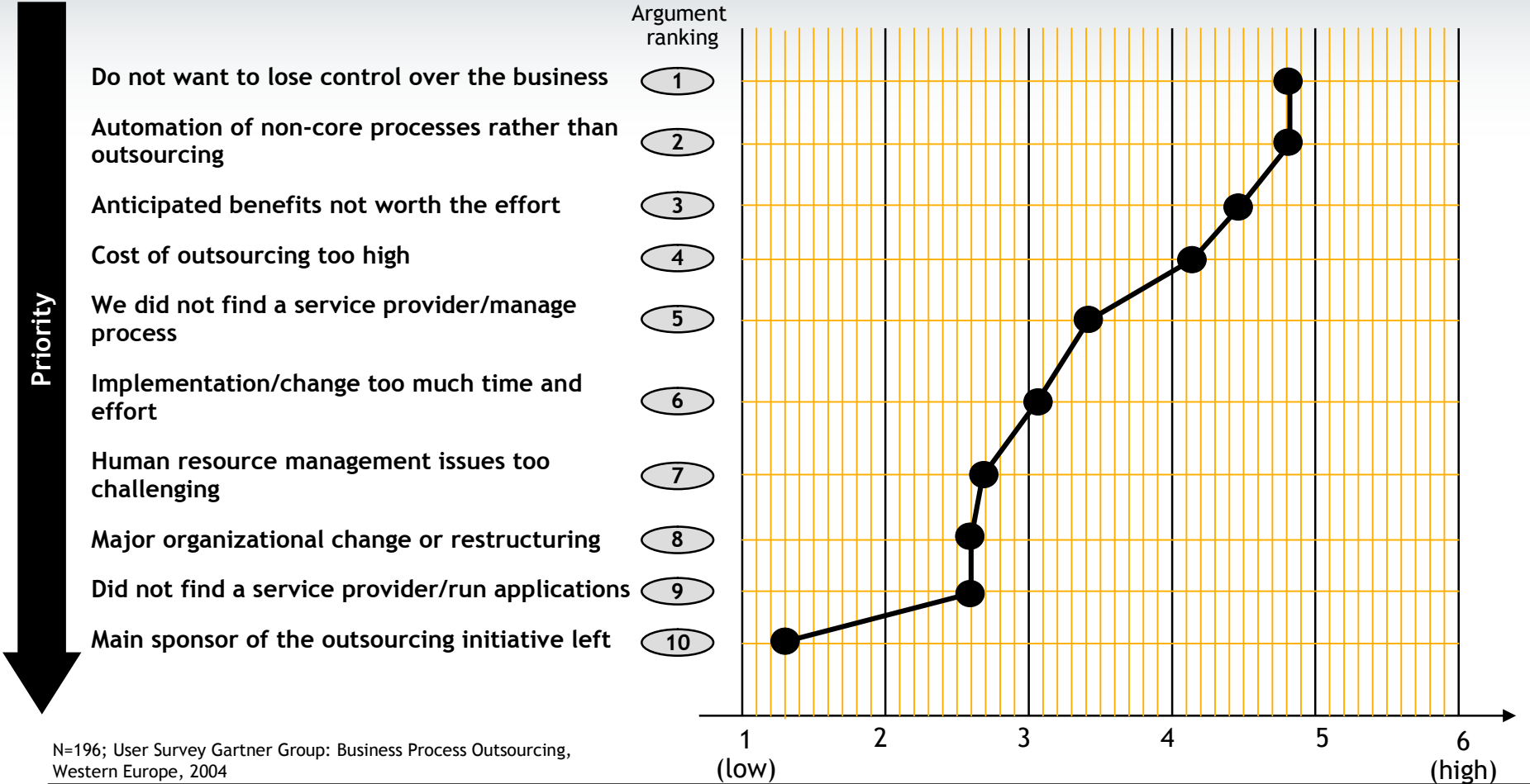
Type of Service	Service Providers
Supply-Based Services	
Logistics	UPS, DHL
Procurement	Xchanging, IBM, Accenture, Hewitt Associates, Xansa and EDS
Specialist Offerings	
Financial services in general	SBS, EDS, Unisys, CSC, Accenture
Insurance (life, pensions administration, claims processing)	Unisys, EDS, CSC, Accenture, Libereta and Xchanging
Check processing	Unisys, EDS
Mortgage processing	EDS, Straat, Skipton Building Society
Document management and services	Xerox, LogicaCMG, Atos Origin

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Business Process Outsourcing Risks

- Key leading risks and market restraints -

General reasons why companies do not want to outsource their processes



N=196; User Survey Gartner Group: Business Process Outsourcing, Western Europe, 2004

Market restraint within the HR BPO market in Western Europe

The HR market is inhibited by several factors, like

HR is a low priority when companies are restructuring (cost savings are not as significant as those obtained from focusing on operational issues).

The complex nature of HR, which is subject to different regulations in each European country

Employee data protection issues (which makes it difficult to offshore processes, even within the EU)

A lack of understanding of what the retained HR function would need to provide.

BPO HR deals have been focused on payroll, indirect procurement for travel services, HR systems, staffing, training and development, benefits and pension ac

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**Scientific research project with
Steinbeis University
- Research objectives and results -**

Steinbeis University



- The Steinbeis Foundation was set up in 1971 and actively supports technology and knowledge transfer all over the world.
- Steinbeis currently includes over 700 companies, plus collaborative firms and project partners in 50 different countries.
- Steinbeis companies specialise in different areas and cover all technology and management fields. They are primarily based in research institutes, universities, applied science institutes and vocational colleges.



Research & Development

Analysis

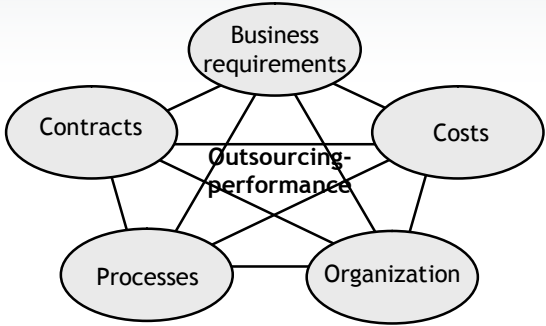
Technology transfer

Education

Consulting

Even though of the huge Outsourcing acceptance there are only a few results concerning the performance effect

Consulting View



- Identification of general statements concerning the performance
- More project related impact
- Unknown success factors
- Customer requirement for valid results

Research approach

- So far there are no trusted results concerning the performance impact of BPO
- Interviewee company decision maker endorse results about the interactions of BPO, the critical success factors and the economic and non economic success indicators

Literature

Actual literature

- Several publications concerning definitions, advantages & disadvantages
- Only a view empirical based, valid studies
- Few results for performance impact and correlation between performance and critical success factors

There are two general ways for the performance analysis

Theoretical analysis of the performance impact

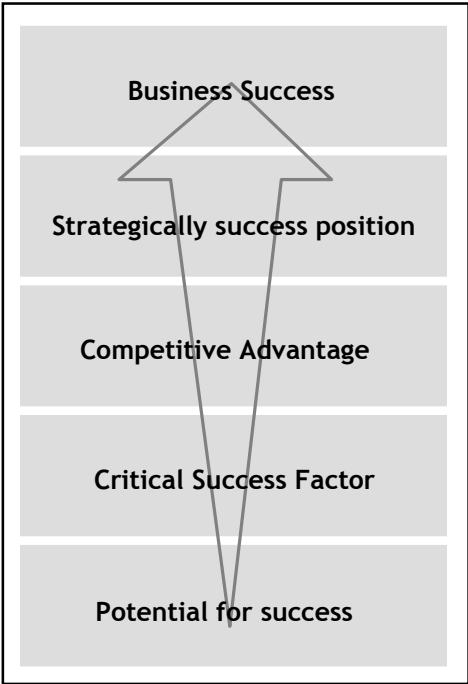
1 Isolated theoretical analysis of BPO business performance impact :

- => Number of articles
- => Plausibility

2 Direct description of the assumed performance impact due to BPO

- => Number of articles
- => Plausibility

Functional chain of the business performance



Empirical analysis of the performance impact

3 Empirical analysis of the performance impact without a trusted theoretical concept:

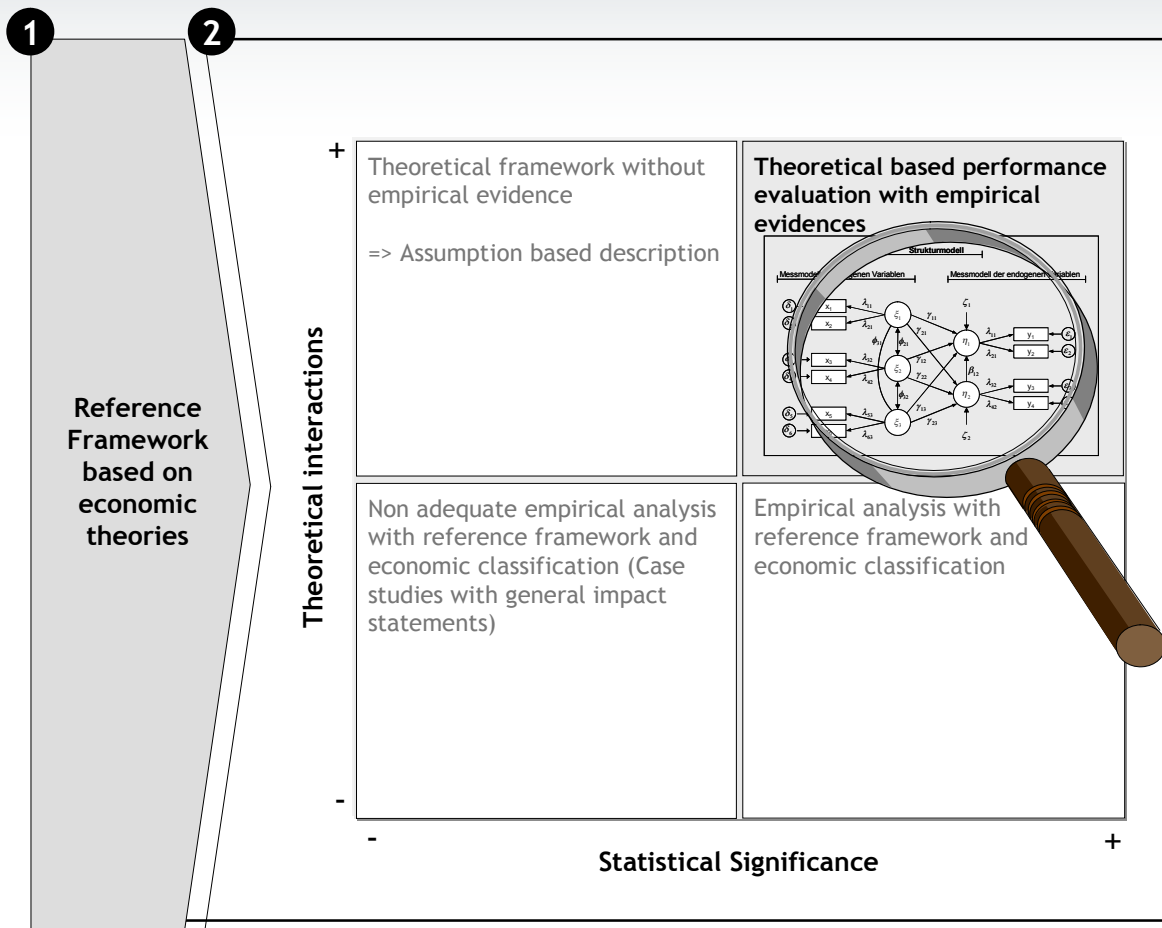
- => Number of articles
- => Plausibility

4 Empirical analysis of the performance impact based on e trusted and integrated theoretical concept

- => Number of articles
- => Plausibility

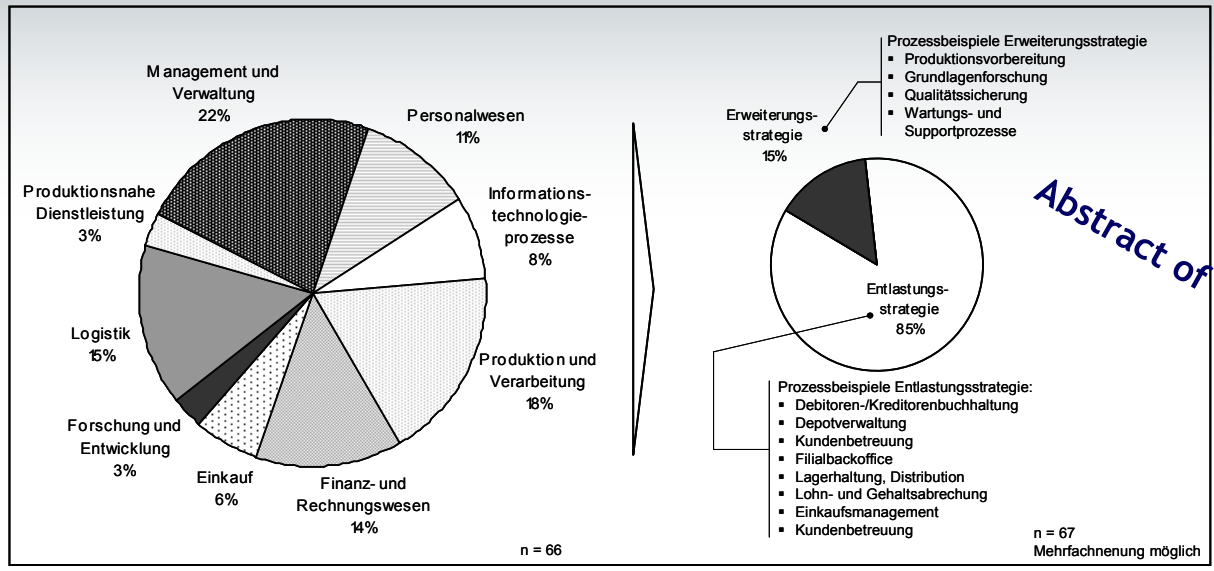
High or very high characteristic
 Non or low characteristic

Conceptual approach for identification of relevant hypothesis



- 1
 - Identification of the dominant critical success factors
 - Identification of the economic and non economic indicators if the business performance
- 2
 - Deduction of hypothesis
 - Empirical survey and testing
 - Model modification
 - Identification of the business impact and relevant results

Abstract of the empirical analysis



Abstract of descriptive findings

Ressourcenübergang	Ja (in%)	Nein (in%)	Keine Angabe	Umfang des Ressourcenübergangs der Unternehmensfunktion (in %)
Übergang Personal	56%	44%	0%	Minimum 0%, Mittelwert 42,2%, Maximum 100%
Übergang IT-Assets	50%	47%	3%	Minimum 0%, Mittelwert 43,4%, Maximum 100%
Übergang sonstiger Assets	15%	80%	5%	Minimum 0%, Mittelwert 12,5%, Maximum 20%
Übergang Drittverträge	27%	67%	6%	Minimum 0%, Mittelwert 18,3%, Maximum 30%

Extract of the final results

In general the statistical findings help to explain the recent high growth in BPO and give implications concerning the effect of BPO to the critical success factors time, costs and quality as well the business goals of companies in Germany. Some implications are:

- The major positive success influence takes BPO on the critical success factor time as well as the factor cost
- Against that the critical success factor quality has a less strong impact due to the indicators of the success
- If the decision makers pursue with the BPO decision goals like the short-term cost reduction, BPO seems to be not the right management concept for that. Furthermore BPO is useful to achieve middle- or long-term goals
- The survey results lead to the conclusion concerning the optimal BPO degree, that BPO is useful till all none core activities are outsourced to an external service provider
- Not to neglect is the fact that the satisfaction of the employees is decreasing with an increasing BPO degree

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