



# Strategic Business Process Sourcing



*Business process sourcing, who performs a business process and where it is performed, is a critical component of modern business. Developing and maintaining appropriate business process sourcing requires continuous review of options afforded by new technologies, changing costs, evolving markets, vendor offerings, and actual results.*

*The content of this Insight document should not be construed as specific professional advice or services for your business by Technology Consulting Associates, LLC.*

*Before making any decision that might affect your finances or business a qualified professional advisor should be consulted.*



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## ***Insight Objectives***

This TCA *Insight* paper provides information relevant to business structure and operation.

## **Audience**

The following individuals should find this *Insight* useful:

- Strategic business management
- Business financial and planning management
- Executive operational management
- Executive administrative management

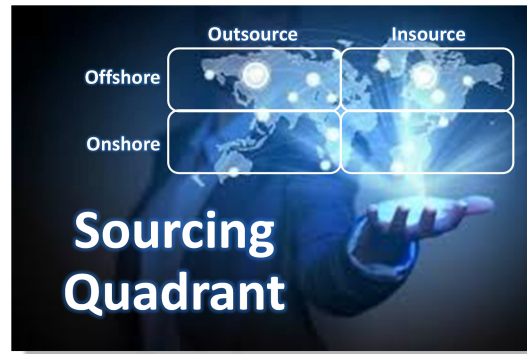
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## Business Process Sourcing Background

### Sourcing Quadrant

Strategic business process sourcing is focused on ensuring the appropriate party is performing particular business functions for an enterprise. A sourcing quadrant can be used to describe the basic options available for business process sourcing:

- *Outsource* where an outside entity or person is engaged to perform a business function
- *Insource* where a function is performed by an employee of the company
- *Offshore* where the function is performed outside the country
- *Onshore* where the function is performed in the country where the business is located



### Brief History

Business process sourcing strategy prior to the middle of the 20<sup>th</sup> century for most firms was quite simple. Successful companies were vertically integrated. They owned, managed, and directly controlled all the assets and processes required to produce and deliver their product/service. Business processes were only outsourced when a specialized skill/product was infrequently needed, there was an overwhelming cost advantage, or a regulatory requirement such as an independent audit needed to be fulfilled.

By the middle of the century companies attempted to take further advantage of economies of scale by growing through acquisition and diversification. Unfortunately this business strategy resulted in large bureaucratic management structures that were hard pressed to respond in a timely manner to the globalizing business environment of the second half of the century.

Companies began to reduce costs and simplify management by increasing the use of outsourced resources. Initially *onshore* outsourcers, companies and individuals located in the same country, were engaged to perform services such as payroll processing or to manufacture specific product components.

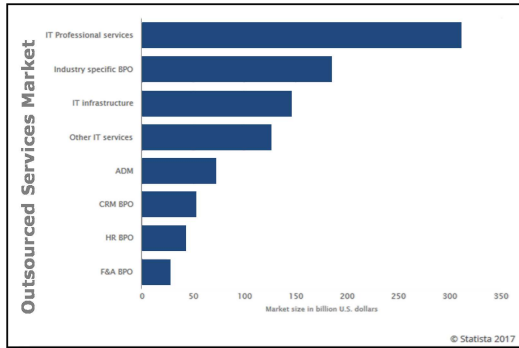
In the 1970's *offshore* sourcing began in earnest, taking advantage of lower labor costs in less developed countries. A leader in this offshore strategy was General Electric whose CEO, Jack Welch, said "Ideally you'd have every plant you own on a barge to move with currencies and changes in the economy." Not only did GE offshore much of its manufacturing, the company instructed its suppliers to "migrate or be out of business".



## Established Business Model

Who performs a business function (insource/outsourced) and where it is performed (onshore/offshore) are two of the most commonly used levers impacting modern business performance.

## Outsourcing



Outsourced business service processes (excluding manufacturing) is currently a \$500 – \$1,000 billion global industry<sup>1</sup>. Information Technology (IT) professional services, IT infrastructure, computer application development and maintenance (ADM), and other IT-related functions are estimated to be about two-thirds of this market.

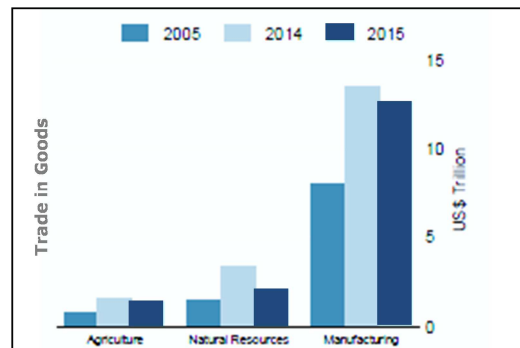
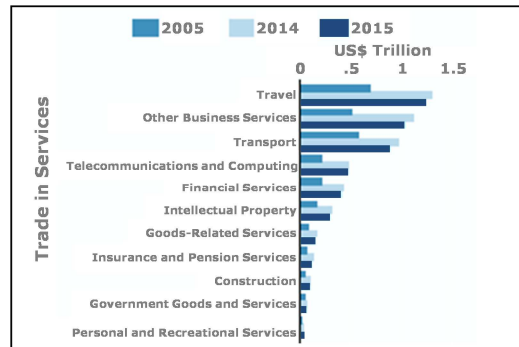
Outsourcing of component production in the discrete manufacturing industry is ubiquitous in today’s business world. Although it is difficult to estimate the size of the outsourced manufacturing market, it is clearly trillions of dollars. Research firm IDC puts the size of the outsourced electronics manufacturing services (EMS) market alone at almost \$500 billion.

## Offshore Sourcing

Companies have embraced the concept of “global labor arbitrage” to perform business processes where labor costs are low. This has been a primary driver of the globalization of business that can be seen by recent trade statistics.<sup>2</sup>

World trade in manufactured goods and business services has doubled in the last decade and is an order of magnitude larger than it was in 1980.<sup>3</sup>

Clearly, whether business processes are outsourced or performed internally, there has been an enormous increase in sourcing strategies that locate business processes where they are most cost effective.



<sup>1</sup> Plunkett Research, LTD estimates the market at \$565B. Statista has published an estimate of \$952B.

<sup>2</sup> Other factors such as government regulations and investment, environmental concerns, marketing and distribution, etc. have had influence but cost continues to be the largest factor in business executives’ decisions on where to perform a business process

<sup>3</sup> Key Statistics and Trends in International Trade 2016 United Nations ISSN 2311-648X and Statista.com. Worldwide GDP grew from \$11 trillion in 1980 to \$47 trillion in 2005 and to \$79 trillion in 2015 (The World Bank).

## Business Process Sourcing Today

Modern companies have utilized sourcing strategies across all business processes from manufacturing to information technology. Sourcing strategies differ widely across industry and function. Our discussion of business process sourcing in today's business environment has been organized using the following structure created by the U.S. Bureau of Labor:<sup>4</sup>



### Core Processes

- *Strategic Management* - Those activities carried out at the highest managerial levels. Included are the formation, implementation, and evaluation of cross-functional decisions that enable the organization to achieve long-term objectives
- *Procurement, Logistics, and Distribution* - Those activities associated with obtaining and storing inputs and with storing and transporting finished products to customers
- *Operations* - Those activities which transform inputs into final outputs, either goods or services. In most cases, business functions categorized as operations will equate with the industry code of the establishment or the activity most directly associated with that code. The specific function—the production of a good or the provision of a service—will relate to the specific industry.
- *Product or Service Development* - Activities such as the following, associated with bringing a new, improved, or redesigned product or service to market
- *Marketing, Sales, and Customer Accounts* - Activities aimed at informing existing or potential buyers
- *Customer and Aftersales Service* - Activities, including training, help desks, call centers, and customer support for guarantees and warranties, that provide support services to customers after purchase of the good or service

### Support Processes

- *General Management and Firm Infrastructure* - Corporate governance (legal, finance, planning, and public and government relations), accounting, building services, management, and administrative support activities
- *Human Resources Management* - Activities associated with recruiting, hiring, training, compensating, and dismissing personnel
- *Technology and Process Development* - Activities related to maintenance, automation, design or redesign of equipment, hardware, software, procedures, and technical knowledge

<sup>4</sup>For more detail see "Business Processes and Business Functions: a new way of looking at employment" Bureau of Labor Statistics, Sharon P. Brown 2008

## Core Process Sourcing

Core business processes relate most directly to the basic functions of the firm, with operations representing the key industry activity of the company. Common wisdom in the early years of outsourcing/offshoring dictated that core processes should never be outsourced. That has changed in recent years.

## Strategic Management

Responsibility for strategic management processes is predominantly maintained as an insourced process. However, approximately \$30 billion<sup>5</sup> is spent on outside resources that specialize in strategic consulting. Half of that amount goes to the "Big Three": Bain & Company, the Boston Consulting Group, and McKinsey & Company.



Strategic management has traditionally been centralized at corporate headquarters. As companies globalize many strategic management responsibilities are moving offshore to local markets. Traditionally these management positions were staffed with individuals from the company's home country. These "expats" were given long term assignments to provide strategic management in the offshore country. As global markets increase in importance and education levels rise in developing countries, the duration of these international assignments has been reduced<sup>6</sup>. Expat assignments are now being made with less regard to an individual's country of origin. Local management has begun to take on more strategic management roles associated with local business functions.

TCA believes that companies will continue to utilize consultants to assist in developing strategies, but their use will evolve:

- Specialized firms, freelancers, and new tools (e.g. digital marketing, video conferencing, crowdsourcing, etc.) will provide viable sources of strategic consulting at attractive price points
- Use of technologies such as process automation, analytics and associated databases, digital libraries, and artificial intelligence by consulting firms will increase
- Large consulting firms will continue to acquire mid-size companies, reducing competition for work requiring a global presence and allowing them to maintain a wide breadth of service/expertise

TCA believes the use of expats will continue, but:

- The duration of assignments will continue to shrink with day-to-day strategic management emphasizing local management structures
- Expat assignments will be developmental rather than permanent roles
- Geographic origin of expats will become less important as education levels, living standards, and abilities continue to homogenize across the globe

<sup>5</sup> 2017 Management Consulting Outlook, Greentarget.com

<sup>6</sup> The decline of the traditional expat?, ECA International, 19 May 2016 Mark Harrison



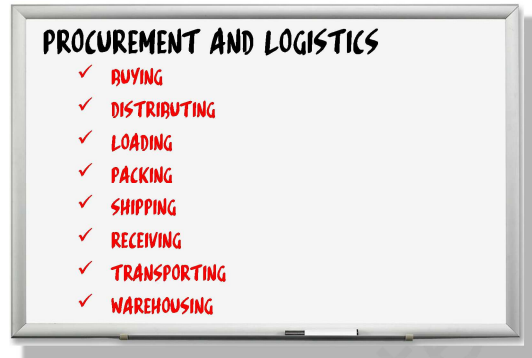


**Procurement, Logistics and Distribution**

In 1832 Charles Babage discussed the need for a 'materials man' who selects, purchases and tracks goods and services.

Logistics can be traced back to the ancient Greek empire where 'Logistikas' provided services related to the supply and distribution of resources.

**Procurement**



Procurement business processes encompass all the activities associated with acquiring goods and services. The overall process, "Source-to-Pay", can be broken down into:

- *Source-to-Contract* – processes used to select vendors, negotiate contracts and manage them, and
- *Procure-to-Pay* – processes used to order and pay for goods and services (e.g. Requisition to PO, Invoice Processing)

Procurement processes can also be divided into direct and indirect. Direct procurement processes are focused on goods and services that are part of a company's finished products (i.e. raw materials). Indirect procurement processes cover enabling goods and services (e.g. office supplies, janitorial services). Direct procurement processes are typically performed in-house with minimal outsourcing in the form of consulting services utilized to improve efficiency.

Indirect procurement is a business process area that has seen extensive outsourcing and offshoring activity, typically in search of cost reductions. Consulting services in Source-to-Contract processes are often used to acquire expertise and market knowledge in areas that a company cannot afford to maintain internally. Procure-to-Pay processes have been outsourced and/or offshored in order to take advantage of lower labor costs. Over \$2 billion is spent on these types of outsourced procurement services<sup>7</sup>.

TCA believes:

- Companies will continue to utilize consultants to improve procurement processes and technology use, and for market knowledge in indirect procurement areas
- The use of technologies such as workflow and AI will increase, reducing the need for Procure-to-Pay labor in general including outsourced labor
- E-procurement services will expand, reducing Source-to-Contract labor needs and improving access to suppliers

<sup>7</sup>Procurement June 22, 2014 Gurjit Degun



## Logistics and Distribution



Distribution and logistics business processes revolve around managing the flow of materials from suppliers to the end users including managing inventory, controlling inbound and outbound shipments, warehouse management, material handling, packaging, order fulfillment, customer service, receiving, and returned goods processing.

First-party logistics (1PL) refers to insourced company logistic processes. Processes are performed by the company that owns the material being shipped or stored. Although many companies may insource the logistics associated with their primary and/or finished products, the majority of companies utilized some outsourcing at least for transportation related processes.

Second-party logistics providers (2PLs) are asset-based carriers which own the means of transportation and provide outsourced transportation services. Typical 2PLs would be shipping lines, airlines and trucking companies.

As the volume of extra-regional trade has increased in recent decades, the use of third party logistics (3PLs) providers has grown. A third-party logistics provider is an outsourcer that manages part or all of a company's supply chain<sup>8</sup>. The average logistics-related cost reductions associated with the use of 3PLs is about 11%<sup>9</sup>.

Worldwide spending on logistics is over \$8 trillion, much of that is tied to internal and the 2PL market, but the 3PL market is estimated at almost \$800 billion<sup>10</sup>.

TCA believes:

- The use of 3PLs will continue to increase as companies expand into extra-regional markets and seek to reduce logistics-related costs
- Logistics process will rapidly evolve as supply chains are impacted by the expansion of internet-based commerce and communication technologies
- Expanded use of information technologies such as "Big Data" analytics, automatic identification, communication technologies, and improved logistics software will support increased efficiencies and improved services
- Blockchain technologies will significantly impact the efficiencies and capabilities of logistic processes over the next decade
- 3PLs will grow and become leaders in the use of logistics-related information technology in order to compete

<sup>8</sup>The term 4PL is sometimes used to refer to a 3PL that does not own any assets but provides management services only or is used to manage other 3PLs.

<sup>9</sup> 2014 Annual Third Party Logistics study, Armstrong and Associates

<sup>10</sup>Global Logistics Costs and Third-Party Logistics Revenues 2015 , Armstrong and Associates updated June 27, 2017



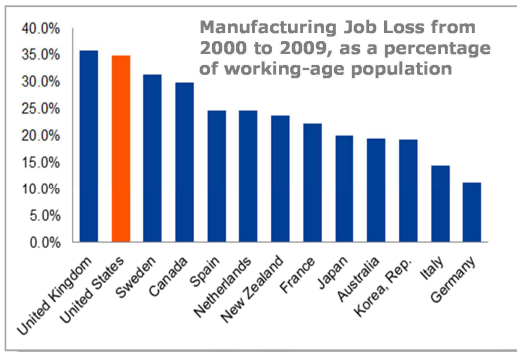
**Operations**

Outsourcing the manufacture of components when a company lacked internal expertise or the economy of scale has always been a common practice. Up until the second part of the twentieth century this outsourcing activity was largely limited to manufacturing processes utilizing firms located within the same region. Driven primarily by cost considerations, significant changes in operational process sourcing, by both manufacturing and service companies, have occurred.



**Manufacturing**

The decline of vertical integration as a business strategy has resulted in an increase in outsourcing, both through conscious sourcing efforts and the spinoff of portions of the “parent” company (e.g. Delphi from GM). Manufacturing processes were not immune to this outsourcing growth as companies attempted to reduce Cost of Goods Sold (COGS). Implementation of the concept of “Core Competencies”<sup>11</sup> expanded the use of Contract Manufacturing Organizations (CMOs) that provide total outsourced manufacturing capabilities to companies. CMOs today are especially prevalent in the electronics and pharmaceutical industries.<sup>12</sup>



Initiated in the United States by GE, manufacturing processes have been offshored to locations with lower labor costs and less regulation. China overtook the United States as the world’s largest manufacturer in 2010. By 2014 the value of China’s manufacturing on a gross value added basis was 39.6% higher than the United States.<sup>13</sup> The offshoring of manufacturing has impacted all of the world’s developed economies.<sup>14</sup>

**Services**

The desire to reduce costs has also driven outsourcing of services that companies provide to their customers. Today the “cable guy” that comes to hook up your TV service is unlikely to actually be an employee of the cable company. Companies have learned that the use of outsourcing companies and temporary employees can

<sup>11</sup> *The Core Competence of the Corporation*, C.K. Prahalad and Gary Hamel, *Harvard Business Review*, May-June 1990  
<sup>12</sup> CMO revenues are in excess of \$400 billion (Statista 2017) in the electronics industry and over \$70 billion (Outsourced Pharma February 15, 2017) in the pharmaceutical industry  
<sup>13</sup> *China’s Economic Rise: History, Trends, Challenges, and Implications for the United States Congressional Research Service*, Wayne M. Morrison, August 30, 2017  
<sup>14</sup> *United States Bureau of Labor Statistics*



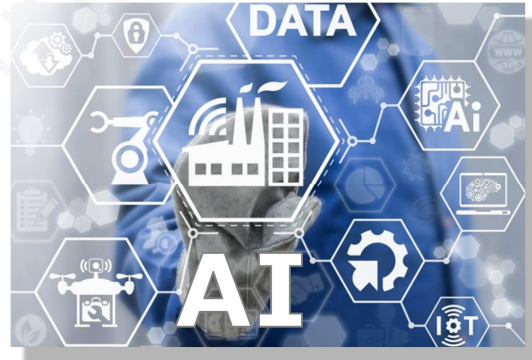
reduce overall costs, provide broader skillsets, improve the company's flexibility to respond to demand changes, migrate fixed costs to variable costs, and potentially provide better quality service than internal employees.

Service companies are major players in offshoring, taking advantage of lower labor costs. A good example of this is Accenture PLC, a global management consulting and professional services. In 2015, the company had about 130,000 employees in India, about 48,000 in the United States, and about 50,000 in the Philippines.

Initiated by Margaret Thatcher in the 1980's, outsourcing of services has even expanded into the government sector. In the United States, there is an estimated 23 million government employees<sup>15</sup>, but it has been suggested that there are many times that number of individuals actually working for the government on an outsourced basis.<sup>16</sup> A case example of outsourcing government services is the city of Sandy Springs, GA which has handed off to private enterprise just about every service that can be evaluated through metrics and inked into a contract.<sup>17</sup>

TCA believes:

- Outsourced manufacturing will continue to be a major factor in future business models where it can provide cost and quality advantages
- There will be a migration towards "nearshoring" manufacturing, bringing production closer to the point of use, as major advances in manufacturing technologies (e.g. additive manufacturing, digitization, 3-D printing, robotics, Internet of Things) lead to Advanced Industries (AI)<sup>18</sup> where labor costs are a much smaller part of the total value created
- Consumption based pricing models will become more common for outsourced services and outsourced "build-to-order" manufacturing
- Outsourcing in service industries will continue to grow as companies utilize information technologies to multiply their core expertise across virtual companies, business models such as crowdsourcing and the "gig economy" become more commonplace, and companies continue to reduce overall labor costs and shift economic risk to workers
- Major service companies will migrate to "Nearshoring" service functions as technologies such as Artificial Intelligence and robotics reduce the need for labor, increasing the relative importance of culture and language in service delivery



<sup>15</sup> 2014 USAFacts.org

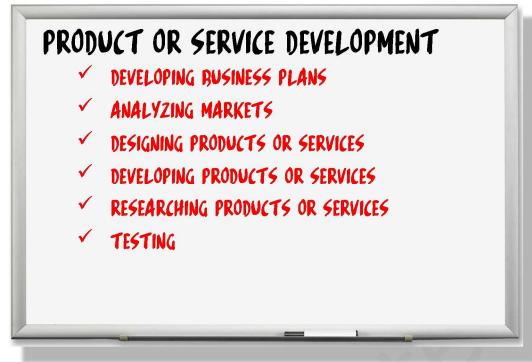
<sup>16</sup> The True Size of Government, Paul C. Light, May 1999

<sup>17</sup> Extreme privatization: A performance analysis of the "Sandy Springs model", Jack A. Feldman, Iowa State University, 2014

<sup>18</sup> Mark Muro of the Brookings Institution's Metropolitan Policy Program

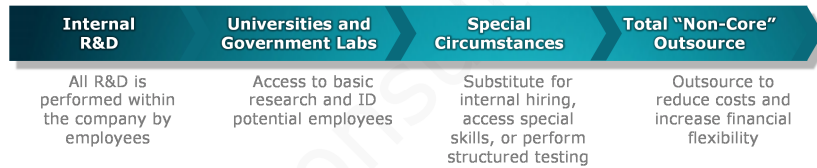
**Product or Service Development**

Traditionally product and service development activities, often labeled Research and Development (R&D), were conducted by internal employees at a company’s headquarters. However, during the thirty year period from 1972 through 2001, outsourcing of R&D by American industry increased by a factor 20.5 while internal R&D costs, measured by scientific labor costs, increased by a factor of only 2.4<sup>19</sup>.



Outsourced product and service development activities are estimated to range from zero percent (0%) up to eighty percent (80%) of an industry’s total spend on R&D today. For example, the pharmaceutical industry is estimated by the Science Exchange to outsource forty percent (40%) of 2017 R&D budgets. Contract Research Organizations (CROs) that service this industry are predicted to reach over \$42 billion in revenues by 2022<sup>20</sup>.

R&D outsourcing can be viewed along a continuum with American and European<sup>21</sup> industries moving to the right over the last few decades:



It is estimated that 30% or more of U.S. R&D is currently being performed offshore. R&D efforts are increasingly concentrated in large urban areas with highly educated workforces regardless of a company’s headquarters location.

TCA believes:

- When outsourcing product development activities companies should:
  - Take advantage of external knowledge sourcing but maintain control of overall R&D process and knowledge
  - Understand strategic financials of R&D efforts
  - Take into account “spillover” knowledge that is a result of R&D efforts and ensure that it is not lost through the outsourcing process
- R&D activities will continue to be globalized with geographical concentration in areas with highly educated workforces, academic infrastructure, and government support

<sup>19</sup> Outsourced R&D and GDP Growth, March 2016, Anne Marie Knott, Washington University, Center for Economic Studies (CES), based on data from the National Science Foundation (NSF) Survey of Industrial Research and Development (SIRD)

<sup>20</sup> CRO market to reach \$45.2B by 2022, Melissa Fassbender, Outsourcing-Pharma.com, 10-Feb-2016

<sup>21</sup> The Trend in Industry towards R&D Outsourcing, European Association of Research and Technology Organisations (EARTO)

**Marketing, Sales, and Customer Accounts**

Marketing has traditionally outsourced a major portion of their work to agencies, data providers and external technology providers. Sales and other more specific customer-related activities have typically been performed in-house. Changes in technology, combined with economic forces, have driven a significant trend to increased outsourcing.



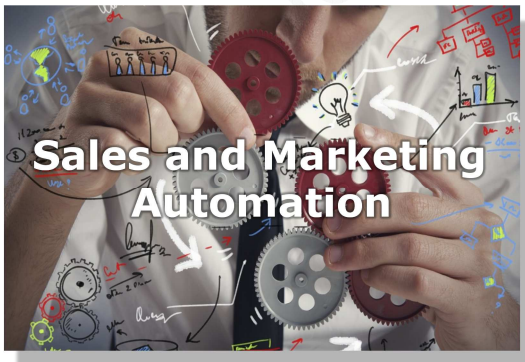
In marketing, the rise of digital marketing and social media has led to an increase in outsourcing as companies address a lack of internal skills and the need to more fully integrate marketing activities with Information Technology (IT) skills. Surveys indicate that over fifty percent (>50%) of digital marketing activities are outsourced.<sup>22</sup>

Outsourcing of customer related sales functions has also increased in areas that are labor intensive such as telemarketing and order processing, or where a company does not have geographic presence. The driving force behind this type of outsourcing has typically been financial.

Offshoring of sales and marketing activities that are centered on technology and those that require significant labor (e.g. order processing and outbound telemarketing) has grown significantly, although there has been some backlash associated with cultural and language difficulties with those activities requiring direct customer contact.

TCA believes:

- Outsourcing will continue to grow in the marketing area with large IT integration firms becoming major players in providing traditional and digital marketing services that are integrated with overall application portfolios
- Automation will increase in customer sales and order processing related activities, reducing labor needs
  - Self-service order processing will become typical for most products and services
  - Selling activities will increasingly use automation to support or supplant human labor (e.g. automated target list generators, email generators, CRMs, outbound call generators, etc.)
- The market for offshore marketing and sales organizations whose products are based on lower labor costs will shrink



<sup>22</sup> Key Findings From U.S. Digital Marketing Spending Survey, 2013, 6 March 2013, Gartner

**Customer and Aftersales Service**

Centralized customer service centers began in the United States during the 1960s. They grew during the following decades with the introduction of 800 numbers (1967) and the development of various labor cost reduction technologies such as automated call distribution (ACD) and interactive voice response (IVR).



In the 1990s third party service center providers began to emerge and companies began to outsource customer service functions. Today these outsourced customer service centers consist of four major types:

1. *Managed* – company owns the center and hires an outsourcer to run it
2. *Dedicated* – outsourcer owns the center which services a single company
3. *Multi-Client* – outsourcer owns the center and services multiple companies
4. *Remote/Virtual* – outsourcer utilizes a distributed remote workforce

In addition to customer service centers, companies outsourced various field support services to reduce fixed and total labor costs associated with these functions. An estimated fifteen-to-twenty-five percent (15%-25%) of customer care is outsourced today. The outsourced customer services market size is estimated to be greater than \$70 billion as of 2016<sup>23</sup>.

Concurrent with the rise of in-country outsourcers, customer service centers were established offshore to take advantage of labor costs that were up to 80% lower.

TCA believes:

- Outsourced customer service will migrate towards “nearsourcing” due to narrowing labor cost differentials, increased use of automation (e.g. chatbots), and perceived quality influenced by language and cultural
- The outsourced customer service center market will consolidate around large companies that invest in the technologies required to:
  - maintain competitive efficiency
  - effectively communicate across multiple channels, including social media
  - provide robust data analytics
  - deliver high and measurable quality levels
- Outsourcing of field service will continue to increase due to reductions in total and fixed costs that can be achieved with contract labor



<sup>23</sup> Outsourced Customer Care Services Market Size By Service, Global Market Insights, May 2017

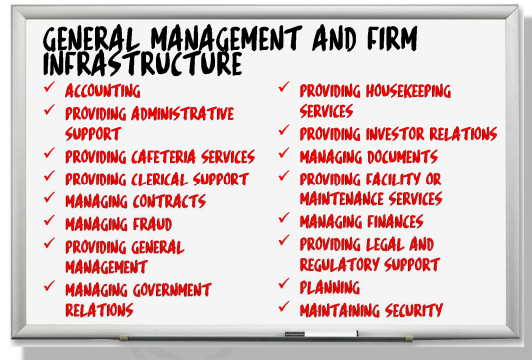


## Support Process Sourcing

Peter Drucker’s article “Sell the Mailroom” published in the Wall Street Journal on July 25, 1989 is widely credited with initiating a major business trend to outsource “non-core” support functions. Outsourcing at most companies began with these support processes and is ubiquitous today.

## General Management and Firm Infrastructure

The use of outsourced accounting and legal services has been common practice for a long time. In the last few decades there has been a growth in outsourcing of other general management functions, specifically facilities management (security, maintenance, janitorial, cafeteria, landscaping, etc.) and administrative support. A few numbers from the U.S. market are indicative:



- U.S. facilities management market is ~\$200B and is anticipated to grow at a rate in excess of thirteen percent (>13%) annually.<sup>24</sup>
- Of the estimated \$437B spent on legal services in the U.S., \$160B is spent on internal legal departments, \$276B on outside counsel, and \$1B in LPOs which are anticipated to grow at about thirty percent (~30%) annually.<sup>25</sup>
- The lobbying industry in the U.S. was greater than \$2B in 2016<sup>26</sup>
- Accounting services accounted for \$82B in 2009 grew to \$94B in 2014<sup>27</sup>, a growth rate of approximately three percent (~3%)
- 4.2 million people in the United States are hired by temporary staffing agencies to perform office and clerical support functions<sup>28</sup>

TCA believes:

- Outsourcing of facilities management will continue to grow as outsourcers in this sector provide expertise and cost savings that will be hard for most companies to match with internal resources
- New technologies and the use of offshore Legal Process Outsourcers (LPOs) will reduce the amount of traditional outside legal services required, resulting in a trend to insource many labor intensive legal functions
- Technology will reduce the need for office and clerical support personnel which will increasingly be supplied on an outsourced basis

<sup>24</sup> North America Facilities Management Market: Outsourcing Support Services Emerges as Key Trend in the U.S., Transparency Market Research, Sep 29, 2016

<sup>25</sup> The Size of the US Legal Market: Shrinking Piece of a Bigger Pie, Legal Executive Institute, January 11, 2016

<sup>26</sup> Opensecrets.org

<sup>27</sup> Accounting Industry in the U.S. - Statistics & Facts, www.statista.com

<sup>28</sup> American Staffing Association. (This number includes many individuals that perform functions other than those that would be strictly categorized as General Management and Firm Infrastructure)

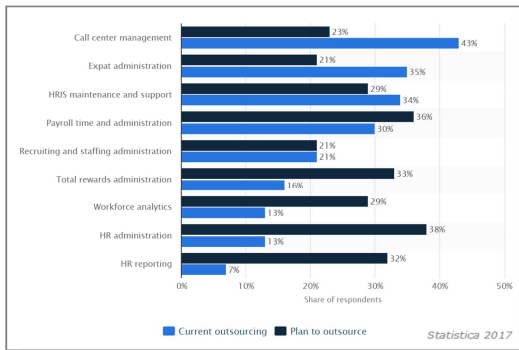


## Human Resources (HR) Management

Payroll was one of the first processes to be outsourced by many companies due to government regulations and tax issues. Outsourcers providing these payroll services (e.g. ADP, Paychex) have built on their payroll processing software and HR knowledge to offer additional HR services including benefits management, workers' compensation, recruiting, and risk management.



In the last two decades there has been rapid growth in outsourced solutions built on web-based applications supporting recruiting (e.g. Monster, Careerbuilder, ZipRecruiter) and companies that develop training solutions (e.g. SweetRush, El Design, LEO). The use of offshore labor for development tasks around these newer services as well as employee assistance call centers has also increased.



The global market for Human Resource Outsourcing (HRO) is anticipated to be between \$54 billion<sup>29</sup> and \$100 billion<sup>30</sup> by 2020. It is estimated that about a third of business processing by U.S. companies in the Human Resources Management area is currently outsourced. This is expected to increase in the future.<sup>31</sup>

An outsourcing technique that is unique to HR functions is a Professional Employer Organization (PEO). This "co-employment" arrangement utilizes the PEO as employer of record for tax purposes while the company continues to direct employees' activities. PEOs charge a service fee for taking over the human resources and payroll functions of the company and provide reduced costs due to economies of scale (especially in the area of insurance).

TCA believes:

- There will be a significant migration to cloud-based, integrated, self-service oriented software supporting Human Resource processes
- Increased use of self-service functions will place significant pressure on labor-based outsourcers (i.e. call centers) resulting in consolidation, usage-based contracts, increased use of quality metrics, and potential insourcing
- There will be increased use of analytics utilizing integrated data provided by multi-function integrated software to more proactively manage HR business functions

<sup>29</sup> Human Resource Outsourcing (HRO) – A Global Strategic Business Report, Global Industry Analysts, Inc., January 2016

<sup>30</sup> Global Outsourcing Trends and HRO, Deloitte Development LLC, 2016

<sup>31</sup> Graph depicts current and planned outsourcing (e.g. HR reporting 7% current plus 32% planned equals 39%)

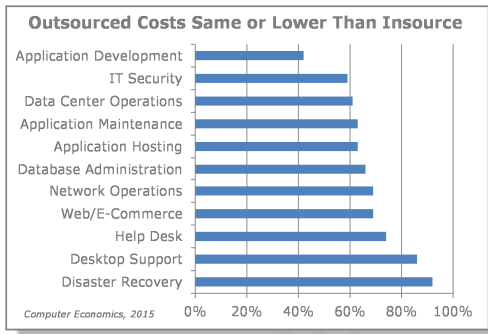
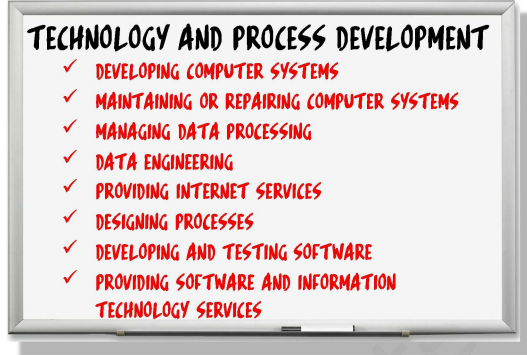


## Technology and Process Development

The use of outsourcers for IT services began with what is recognized as the very first use of computers for commercial purposes. In 1954 GE Appliance Park developed a payroll and accounting system on a Univac I with the assistance of consulting services from Arthur Andersen's Administrative Services group.

Initially companies used services in the IT area to supplement scarce internal resources, both personnel and expensive mainframe hardware. In the 1980's companies began a serious migration to data centers and operational personnel provided by outside companies, taking advantage of these outsourcers' economies of scale.

In 1989 Jack Welch from GE decided to outsource \$10 million of IT application work to India. That began a major wave of *offshore* outsourcing of application development and maintenance driven by substantially lower labor costs. Over the last few decades offshore outsourcing has expanded to include almost every process within the Information Technology business area. The Philippines, Eastern Europe, and many other nations have built IT service industries. India's IT outsourcing industry alone is estimated to be over \$150 billion<sup>32</sup>.



Today, Forrester Research estimates the Information Technology (IT) outsourcing market at more than \$440 billion.<sup>33</sup> Lower costs are still the major driver of outsourcing IT, however access to new technologies and increased flexibility also contribute to the market's size and growth. The latest migration is to outsourcer provided cloud-based infrastructure executing Software as a Service (SaaS).

TCA believes:

- Offshore outsourcers providing IT functions will remain significant players in the marketplace even as offshore labor costs approach parity
- Outsourced cloud computing will become the dominant model for IT infrastructure, providing more responsive service and replacing fixed capital costs with more controllable variable costs
- Software as a Service will be the prevailing model for software supporting common business functions (i.e. software that does not support a unique business function or differentiates a company from its competition) as companies replace existing legacy applications

<sup>32</sup> India's \$150 billion outsourcing industry stares at an uncertain future, Rahul Sachitanand, The Economic Times, January 15, 2017

<sup>33</sup> Gartner estimates the market size at \$283.5 billion

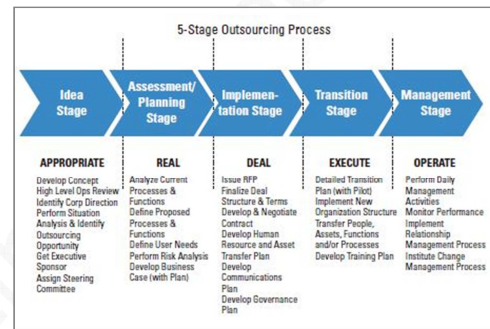


## Approach to Business Process Sourcing

The outsourcing process has been refined over the years. "How To" standards including the Outsourcing Professional Body of Knowledge (OPBOK), maintained and supported by the International Association of Outsourcing Professionals (IAOP), and Carnegie Mellon's eSourcing Capability Models (eSCMs) are publically available. OPBOK focuses on outsourcing of any service. eSCM focuses on sourcing of IT-enabled services and covers multiple types of sourcing including outsourcing, insourcing, and shared services.

OPBOK describes a generally accepted set of knowledge and practices applicable to the successful design, implementation, and management of outsourcing contracts. It provides:

- A framework for understanding what outsourcing is and how it fits within business operations
- The knowledge and practice areas generally accepted as critical to outsourcing success
- A glossary of terms commonly used in outsourcing deals and contracts



OPBOK defines ten knowledge areas utilized across a five-stage process.

TCA believes:

- Existing sourcing models such as OPBOK provide significant value with regards to the mechanics of "how to" outsource, but provide limited insight into:
  - The appropriate business process model - how a function should be performed regardless of who does it),
  - Shoring decisions and implementation processes - where a function should be performed and how to execute a shoring strategy
  - Insourcing decisions and implementation processes - determining when it is appropriate to bring a currently outsourced business process back inside the company and how to do that
- Too often companies follow an formal outsourcing regimen when initially outsourcing a business process but fail to revisit strategic sourcing issues when outsourcing contracts are renewed



## Insights

- ④ Companies have migrated from centralized vertically integrated structures to complex global interdependent structures over the last few decades
- ④ The use of contract labor will continue to increase as companies take advantage of variable costs combined with potentially lower overall costs
- ④ Ever changing labor rates, government regulations, tax structures, education levels, and government incentives impact the appropriate location for performing particular business processes
- ④ Advances in information technology are impacting the way business processes should be performed and the business cases around related sourcing decisions
- ④ Business Process as a Service (BPaaS), where costs are variable based on output or usage, will become a dominant model for outsourcing in the future
- ④ How a business process is performed, who performs it, and where it is performed requires ongoing strategic planning across all of a company's business processes in order to optimize overall business performance
- ④ Companies should expect outsourcers to be a major source of innovation regarding the use of technology to reduce costs and improve service levels
- ④ Advances in analytics and "big data" will provide better information for sourcing decisions and operational management of outsourced processes

## How TCA Can Help

TCA works with companies to define, plan, and implement changes that improve the performance of their business. We can help plan and implement appropriate sourcing strategies that improve the efficiency and service levels of your company.

Typical TCA Strategic Business Process Sourcing services include:

- ✓ Assisting customers establish appropriate outsourcing contracts including their development, implementation, and creation of ongoing management processes
- ✓ Working with customers to develop the appropriate sourcing model for a particular business process or area
  - How it should be performed, including appropriate technologies
  - Where it should be performed for optimal cost and service levels
  - Who should perform the function
- ✓ Determining where technology can have major impact on existing business processes within a company

*For more information about how TCA can help your business please contact us*

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