



# Impact of Offshore Services on BPO Adoption

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Custom Assessment  
September 2006

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# Abstract

The National Outsourcing Association is a trade body representing user organizations undertaking outsourcing, together with suppliers of outsourcing services and related professional bodies, such as legal firms.

The NOA conducts its own research into the marketplace both to assist its members in understanding the issues around outsourcing and also as a basis for media campaigns. The purpose of this research is to identify the reasons why BPO is not taking off as quickly as expected and perceptions of BPO service quality from nearshore and offshore destinations.

The objective of the study is to identify the impact of service quality on BPO service adoption.

In particular, the study identifies:

- ❑ The health of the BPO and IT industries, including coverage of:
  - ❑ Changing levels of contract awards in IT outsourcing and BPO
  - ❑ The extent of convergence between IT outsourcing and BPO
  - ❑ The changing scope of BPO contracts
- ❑ Why BPO is not taking off as quickly as possible, including:
  - ❑ Reasons why BPO is rejected when evaluated
  - ❑ Reasons why captive centres are selected as an alternative to BPO
- ❑ Perceptions of BPO service quality by delivery country, including:
  - ❑ Quality perceptions by delivery country.

The delivery location analysis covers Asia, Eastern Europe, Latin America, and Europe.

The study is based on 100 interviews with sourcing managers in the U.K., France and Germany.

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Chapter

1

# Introduction

## A

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### Background & Objectives

#### Background

The National Outsourcing Association is a trade body representing user organizations undertaking outsourcing, together with suppliers of outsourcing services and related professional bodies, such as legal firms.

The NOA conducts its own research into the marketplace both to assist its members in understanding the issues around outsourcing and also as a basis for media campaigns. The purpose of this research is to identify the reasons why BPO is not taking off as quickly as expected and perceptions of BPO service quality from nearshore and offshore destinations.

#### Objectives

The objective of the study is to identify the impact of service quality on BPO service adoption.

In particular, the study identifies:

- The health of the BPO and IT industries, including coverage of:
  - Changing levels of contract awards in IT outsourcing and BPO
  - The extent of convergence between IT outsourcing and BPO
  - The changing scope of BPO contracts
- Why BPO is not taking off as quickly as possible, including:
  - Reasons why BPO is rejected when evaluated
  - Reasons why captive centres are selected as an alternative to BPO
- Perceptions of BPO service quality by delivery country, including:
  - Quality perceptions by delivery country.

# B

## Scope & Methodology

### Scope

The geographic scope of the research is U.K., France and Germany. The research covers major organizations in each of the following sectors:

- Financial Services
- Manufacturing.

The scope of outsourced process includes:

- Front-office customer management services
- Middle-office industry-specific services, such as life & pensions administration
- Back-office support services, such as HR, F&A and indirect procurement.

The scope of delivery locations covered was:

- Asia including India, China, Philippines and Malaysia
- Eastern Europe including Czech Republic, Poland, Hungary, Romania, Russia
- Latin America including Argentina, Brazil, and Mexico
- Africa including South Africa, Tunisia, Ghana, and Morocco.

### Methodology

The research methodology consisted of 100 telephone interviews with sourcing managers involved in BPO evaluations over the past two years.

The profile of telephone interviews by country was:

- U.K. (40)
- France (30)
- Germany (30).

The interview questionnaires used were developed in conjunction with NOA and agreed with NOA before use.

All importance and satisfaction ratings within this study are rated on a 1 to 5 scale where 1 = not at all important/satisfied and 5 = very important/satisfied.

# C

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## Structure of the Report

The structure of the report is as follows:

1. Introduction
2. Executive Summary
3. Outsourcing Heartbeat
4. BPO Competitiveness
5. Delivery Location Quality Perceptions,
6. Industry Sector Analysis



Chapter

2

## Executive Summary

### A

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#### European Sourcing Managers Expect Levels of BPO Adoption to Increase

Levels of BPO contract TCV award have not matched the high expectations of the market over the past two years. The value of BPO TCV awarded has remained roughly constant in Europe while declining in North America.

The reasons for this largely lie in the lack of maturity of the BPO market. Nonetheless, sourcing evaluations in Europe over the past two years have led to the award of a BPO contract or the establishment of a captive centre in approximately 70% of evaluations, and sourcing managers expect the ratio of BPO contract awards to increase over the next few years as vendor capability continues to mature.

Even at the present time, sourcing evaluations tend to favour the award of a BPO contract over the establishment of a captive centre. BPO awards are made in 65% of evaluations where BPO is considered, whereas captive centres are established in approximately 35% of cases where captive centres are considered.

Sourcing managers expect these patterns to accelerate in future with an increase in the proportion of evaluations resulting in contract awards and an increase in the proportion of BPO contracts relative to establishment of captive centres.

However, in order for BPO adoption to continue to increase, there needs to be an increasing level of delivery maturity, characterised by:

- Increased emphasis on minimization of legal and contractual risk
- An increased emphasis on building process operations knowledge by vendors
- Continued improvement in delivery capability across offshore locations.

## B

### Seventy Per Cent of BPO Evaluations Result in Contract Awards

Exhibit II-1 shows the breakdown of evaluations of the feasibility of utilizing captive centres and/or business process outsourcing completed by organizations over the past two years.

*Exhibit II-1*

#### Number of Evaluations Completed

	Average	Proportion (%)
Number of evaluations where BPO evaluated on its own	2.1	60
Number of evaluations where both BPO and captive centres evaluated	1.0	29
Number of evaluations where captive centres investigated on their own	0.4	11
Total number of evaluations	3.5	100

BPO is considered in approximately 90% of sourcing evaluations while the possibility of using captive centres is considered in approximately 40% of sourcing evaluations.

The evaluation of business process outsourcing as the only alternative is more prevalent in the U.K., where BPO is evaluated in isolation within approximately 70% of sourcing evaluations. In France and Germany, BPO is evaluated on its own in approximately 50% of evaluations.

The captive centre option is considered more frequently in France and Germany than in the U.K. In France and Germany, captive centres are considered within 45% of sourcing evaluations compared to within 30% of sourcing evaluations in the U.K.

Sourcing managers expect an increase in BPO contract awards from sourcing evaluations. However, sourcing managers in the financial services sector, unlike their counterparts in the manufacturing sector, expect a decrease in the proportion of offshore delivery within future BPO contract awards, probably as a result of the sector's high historical focus on use of Indian-based captive centres.

Exhibit II-2 shows the breakdown of evaluations by service type.

**Exhibit II-2**

**Number of Evaluations by Service Type**

	Number	Proportion (%)
Contact centre and call centre services	0.9	26
HR services	0.8	23
Industry-specific services	0.8	22
Finance & accounting services	0.7	20
Indirect procurement services	0.3	9

Approximately two-thirds of evaluations over the past two years were concentrated in the more mature horizontal BPO services of customer management services, HR services, and finance & accounting services.

Industry specific services accounted for approximately a quarter of evaluations with indirect procurement services included within approximately 10% of sourcing evaluations.

As would be expected, sourcing evaluations are concentrated in contact centre and industry-specific services in the financial services sector, and in HR and F&A services among organizations in the manufacturing sector.

Exhibit II-3 shows the number of completed evaluations that resulted in BPO contract awards and the number that resulted in captive centres being established.

**Exhibit II-3**

**BPO Contracts Awarded**

	Number	Proportion (%)
Number of BPO contracts awarded	2.0	57
Number of captive centres established	0.5	14
Number of evaluations where neither occurred	1.0	29

Evaluations led to the award of a BPO contract or the establishment of a captive centre in approximately 70% of cases. Overall evaluations tend to favour the award of a BPO contract over the establishment of a captive centre. BPO awards are made in 65% of evaluations where BPO is considered, whereas captive centres are established in approximately 35% of cases where captive centres are considered.

The financial services sector shows over double the propensity of the manufacturing sector to establish captive centres.

## C

### Increased Emphasis on Minimization of Legal and Contractual Risk Required

Overall the principal reason leading to BPO rejection is a perception of high contract and legal risk, perceived to be a highly significant factor in BPO service rejection by approximately three-quarters of sourcing managers.

Overall legal protection is considered highly relevant by approximately 90% of organizations that are evaluating going offshore.

Exhibit II-4 shows the perceived relevance of each of a number of potential legal issues when offshoring.

*Exhibit II-4*

#### Relevance of Legal Issues

Legal Issue	High Relevance (%)
Being able to enforce my contract against the offshore provider	93
A data protection system that allows cross-border data transfers	93
Protection of Intellectual Property Rights	92
Technology transfer laws	83
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	62

Protection of IPR, contract enforcement, and data protection are highly important issues to over 90% of sourcing managers. Laws relating to the transfer of personnel are generally regarded as less important than laws relating to IPR, data protection and contract enforcement.

This pattern of legal requirement is broadly similar across organizations in France, Germany and the U.K.

Clearly all these areas need to be addressed if the adoption of multishore-based BPO services is to accelerate further.

## D

### Vendors Must Increase Emphasis on Building Process Operations Knowledge

Exhibit II-5 shows the key reasons why BPO was favoured over captive centre adoption and why captive centres were favoured compared to BPO.

*Exhibit II-5*

#### Reasons Why BPO and Captive Centre Approaches Favoured

Why BPO Favoured	Why Captives Favoured
Need for external expertise	Lower cost/vendor margin avoidance
Need for improved quality of service	Utilization of capacity in existing captives
Speed of service implementation	Greater control
Reduced cost	Retention of own expertise and experience
Less internal investment	Greater control of service quality
Increased service flexibility	Increased flexibility of onshore/offshore mix

BPO tends to be favoured for quality related reasons such as a need for external expertise and to improve the quality of service provided, while captive centres tend to be favoured to utilize existing capacity and utilize and retain existing expertise and experience or to avoid paying vendor profit margins.

Captive centres are also sometimes adopted to improve future flexibility to change more rapidly the onshore/offshore personnel mix as appropriate, while BPO is often adopted as a means of increasing the flexibility of service volumes and the service mix.

However, despite the apparent advantage of BPO over captive centres in delivering service improvement, there remains considerable scope for BPO capability improvement. Exhibit II-6 shows the significance of each of a number of potential factors for BPO rejection.

*Exhibit II-6*

**Potential Factors for BPO Rejection**

Rejection Factor	Proportion High Significance (%)
Perception of greater contract & legal risk	74
Lack of process operations knowledge within vendor	67
Unproven service delivery quality	51
Lack of client company knowledge within vendor	50
Compliance concerns	46
Lack of vendor service maturity	45
Lack of suitable offshore service delivery capability	43
Inappropriate service locations or location mix	41
Lack of demonstrable success stories	39
Unproven cost reduction capability	35

In addition to legal concerns discussed earlier, there are currently a number of major areas of concern regarding vendor knowledge and capability. In particular, vendors need to address their process operations knowledge and their client company knowledge. Coupled to this, approximately 45% of sourcing managers have concerns regarding compliance issues.

In addition, there are still major levels of concern regarding vendor service maturity and the availability of suitable offshore service capability, both of high concern to approximately 45% of sourcing managers.

Lack of process operations knowledge within the vendor is a major factor behind BPO rejection in both the financial services and manufacturing sectors.

Thereafter the BPO rejection factors differ significantly by sector with unproven service delivery quality, lack of client company knowledge within the vendor, and compliance concerns the major factors in the financial services sector. The major BPO rejection factor for manufacturing companies is the perception of greater contract and legal risk.

# E

## Offshore Locations Require Continued Improvement in Breadth of Capability

India and China seem destined to remain the major offshore powerhouses for the foreseeable future, with China expected to increase its share of BPO delivery compared to India over the next few years. Nonetheless European sourcing managers would like to see vendors expand their delivery capability in Eastern Europe to access a better mix of language skills and to offer a low risk alternative to Asia.

Exhibit II-7 shows the overall perceptions of the quality of BPO delivery capability within each of a number of geographies.

**Exhibit II-7**

### Quality Perceptions

	High Quality (%)
India	66
Malaysia	66
China	58
Russia	51
South Africa	48
Philippines	45
Brazil	45
Czech Republic	43
Poland	43
Hungary	40
Mexico	40
Romania	38
Argentina	35
Tunisia	33
Morocco	13
Ghana	8
Asia Overall	58
Eastern Europe Overall	42
Latin America Overall	38
Africa Overall	16

Overall the quality of BPO delivery capability is perceived to be higher in Asia than in Eastern Europe or elsewhere, with China now following closely in perceived BPO delivery capability behind more established locations in India and Malaysia.

While approximately 60% of sourcing managers perceive there to be high quality of BPO service delivery within India, only 42% of sourcing managers perceive there to be high quality BPO service delivery within Eastern Europe. The proportion at 38% is similar for Latin America overall, while just 16% of sourcing managers perceive there to be high quality service delivery availability in Africa overall.

Within the individual regions, perceptions of individual countries are broadly similar within Eastern Europe and Latin America, though Brazil is slightly more highly favoured within the latter and Romania slightly less favoured within Eastern Europe.

However, as might be expected, there are wide fluctuations in attitudes towards BPO delivery capability within the African countries, with South Africa highly regarded by almost 50% of sourcing managers, Tunisia by a third of sourcing managers, and Ghana by just 8% of sourcing managers.

There are also some significant variations in attitude by European country. These are most noticeable for BPO service delivery in India. While 80% of U.K. sourcing managers perceive high BPO delivery capability within India, this proportion falls to 63% for sourcing managers in Germany, and to 50% for sourcing managers based in France.

Attitudes towards China are less polarized but exhibit a similar pattern with attitudes most favourable within the U.K. Sourcing managers in France typically regard Malaysia as having greater BPO service delivery capability than either India or China.

Sourcing managers in the manufacturing sector have a stronger perception of high service delivery quality in Eastern Europe than their counterparts in the financial services sector.



Exhibit II-8 shows how sourcing managers would allocate 100 personnel across geographies for each of a number of BPO categories.

**Exhibit II-8**

**BPO Personnel Allocation**

<b>Delivery Location</b>	<b>Proportion of Personnel Allocated (%)</b>
India	58.3
China	17.8
Romania	5.2
Poland	4.3
Czech Republic	4.1
South Africa	2.7
Malaysia	1.8
Russia	1.6
Hungary	1.2
Brazil	0.9
Mexico	0.9
Tunisia	0.6
Philippines	0.3
Argentina	0.2
Morocco	0.1
Ghana	0.0
Asia Overall	78.1
Eastern Europe Overall	16.4
Africa Overall	3.5
Latin America Overall	2.1

China has emerged strongly into second place in popularity with sourcing managers behind India, with China particularly favoured by German sourcing managers and for finance and accounting services.

India and China are followed in popularity overall by countries in Eastern Europe, with Romania emerging strongly alongside Poland and the Czech Republic. However, sourcing managers in the U.K. would allocate a lower proportion of personnel to countries in Eastern Europe than would their counterparts in France and Germany.

Exhibit II-9 shows the importance of each of a number of potential capabilities in selecting a location for BPO services.

**Exhibit II-9**

**Importance of Location Selection Criteria**

Selection Criterion	Proportion High Importance (%)
Availability of legal protection	89
Quality of power & telecoms infrastructure	88
Political stability	87
Process transfer and take-on skills	82
Middle management skill levels	76
Process quality improvement techniques	73
Cultural compatibility of personnel	65
Industry-specific process knowledge	63

Infrastructure factors, including the availability of legal protection, power and telecoms, remain more important hygiene factors than process-specific skills. These factors together with political stability are highly important to over 80% of sourcing managers. In addition, process transfer and take-on capability is highly important to over 80% sourcing managers.

The profile of importance of location selection criteria is broadly similar by country.

Exhibit II-10 shows the perceived capabilities of personnel by delivery location against each of a number of these key location selection criteria.

**Exhibit II-10**

**Perceived Delivery Capabilities by Location**

Selection Criterion	Asia	Eastern Europe	Latin America	Africa
Process transfer and take-on skills	50	23	28	1
Middle management skill levels	76	39	2	6
Process quality improvement techniques	39	28	35	3
Cultural compatibility of personnel	24	61	44	15
Industry-specific process knowledge	52	17	12	20

This chart shows the need for continuing development of the skill base across all delivery locations, with no location scoring highly against all these criteria. In particular, all geographies need to continue the development of their process transfer and take-on skills and process quality improvement techniques, and there is a perceived lack of industry-specific process knowledge outside Asia.

Asia scores much more highly than other potential delivery locations in terms of process transfer and take-on skills, middle management skill levels, and industry-specific process knowledge. Asia also scores highest in terms of perceived process quality improvement techniques but here the gap between Asia, Latin America, and Eastern Europe is much narrower.

In terms of perceived cultural compatibility of personnel, Asia is strongly outscored by both Eastern Europe and Latin America.

Chapter  
3

# Outsourcing Heartbeat

## A

### Changing Levels of Contract Awards in IT Outsourcing and BPO

Exhibit III-1 provides European BPO market forecasts from 2005 to 2009 by geographic region.

*Exhibit III-1*

**Global BPO Market Forecast by Region: 2005 – 2009**

Region / Country	Est. Market Size 2004 (\$m)	Est. Market Size 2005 (\$m)	Est. Market Size 2009 (\$m)	CAAGR (%)
North America	70,200	74,800	98,100	7
- United States	56,500	60,200	78,700	7
- Canada	13,700	14,600	19,400	7
EMEA	37,400	40,800	56,800	9
- United Kingdom	16,200	17,800	25,600	10
- France	4,110	4,360	5,600	6
- Germany	6,500	7,100	10,000	9
- Other	10,600	11,500	15,600	8
Asia Pacific	10,700	11,500	15,500	8
Latin America	7,710	8,290	11,100	7
Global	126,000	135,400	181,500	8

Source: NelsonHall Global BPO Market Forecast

While the BPO market is growing globally at approximately 8% per annum, and more rapidly in the U.K., the level of contracting activity has declined in recent years. Overall outsourcing contract value awarded over the past two years has declined with BPO contract value awarded declining significantly from a peak in the 12 month period ending June 2004.

Exhibit III-2 shows the total contract value for IT outsourcing and BPO awarded globally between July 2002 and June 2006. In each case the TCV during the 12 month period July to June is shown.

**Exhibit III-2**

**Global Outsourcing TCV Awarded: July 2002 to June 2006**

Global	TCV (\$Bn) 2002-2003	TCV (\$Bn) 2003-2004	Growth (%)	TCV (\$Bn) 2004-2005	Growth (%)	TCV (\$Bn) 2005-2006	Growth (%)
BPO	19.5	23.5	21	17.9	-24	15.7	-12
IT Outsourcing	53.2	54.8	3	42.6	-22	48.3	13
Total	72.7	78.3	8	60.5	-23	64.0	6
Proportion BPO (%)	27%	30%		30%		25%	

Source: NelsonHall

Exhibit III-3 shows the total contract value for IT outsourcing and BPO awarded by European organizations between July 2002 and June 2006. In each case the TCV during the 12 month period July to June is shown.

**Exhibit III-3**

**European Outsourcing TCV Awarded: July 2002 to June 2006**

Europe	TCV (\$Bn) 2002-2003	TCV (\$Bn) 2003-2004	Growth (%)	TCV (\$Bn) 2004-2005	Growth (%)	TCV (\$Bn) 2005-2006	Growth (%)
BPO	6.3	7.1	13	7.0	-1	7.1	1
IT Outsourcing	21.6	34.4	59	24.0	-30	18.5	-23
Total	27.9	41.5	49	31.0	-25	25.6	-17
Proportion BPO (%)	23%	17%		23%		28%	

Source: NelsonHall

In Europe, the level of outsourcing contract awards has also declined sharply over the same period, but the level of BPO contract value awarded has remained largely constant. Consequently BPO contract value currently accounts for 28% of outsourcing TCV awarded in Europe compared to 23% of outsourcing TCV globally.

Exhibits III-4 and III-5 show globally and by region the levels of BPO TCV awarded by quarter since January 2002.

Exhibit III-4

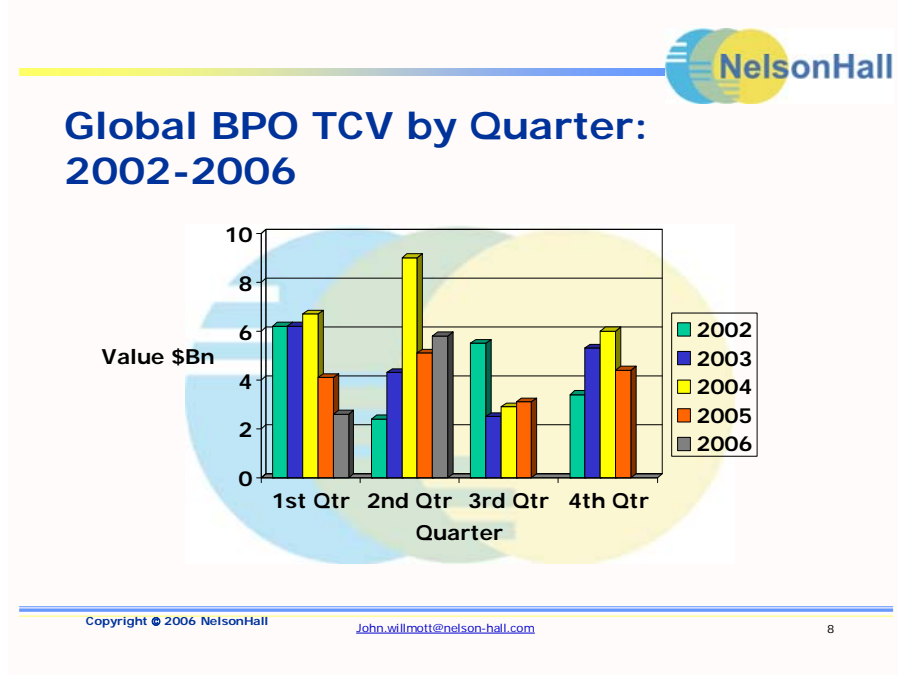
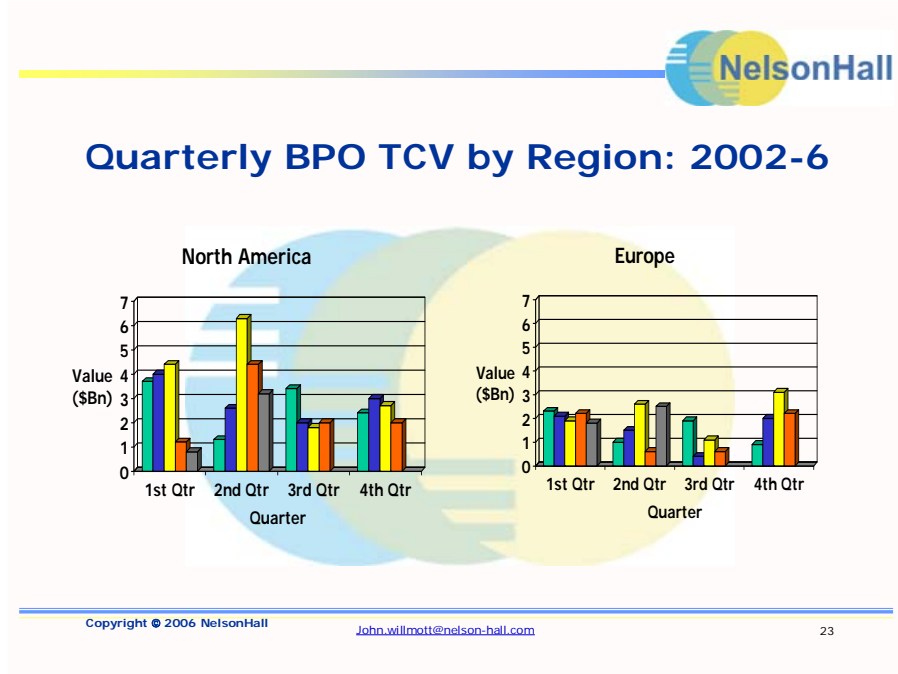


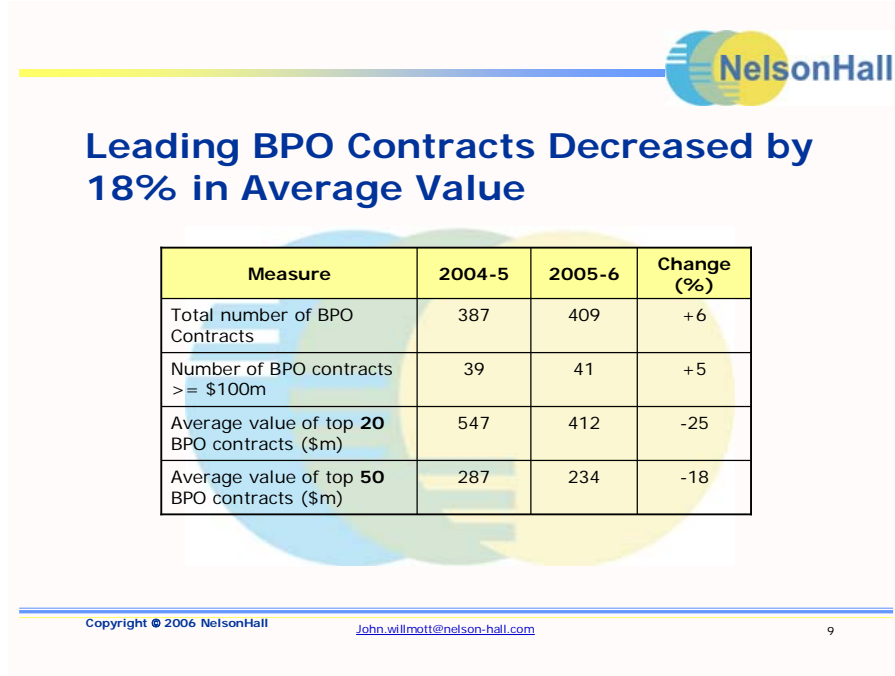
Exhibit III-5



These patterns show the sensitivity of the BPO market to political factors. It is very noticeable that national elections in both the U.S. and Europe have in the past produced major downturns in BPO activity over a period of up to nine months. This is particularly marked in the U.S. but also a noticeable factor in Europe.

In addition, the level of BPO TCV is impacted by the style of BPO contract award. Exhibit III-6 shows that while the total number of BPO contracts awarded has increased over the past twelve months, the average TCV of the leading contracts has decreased significantly.

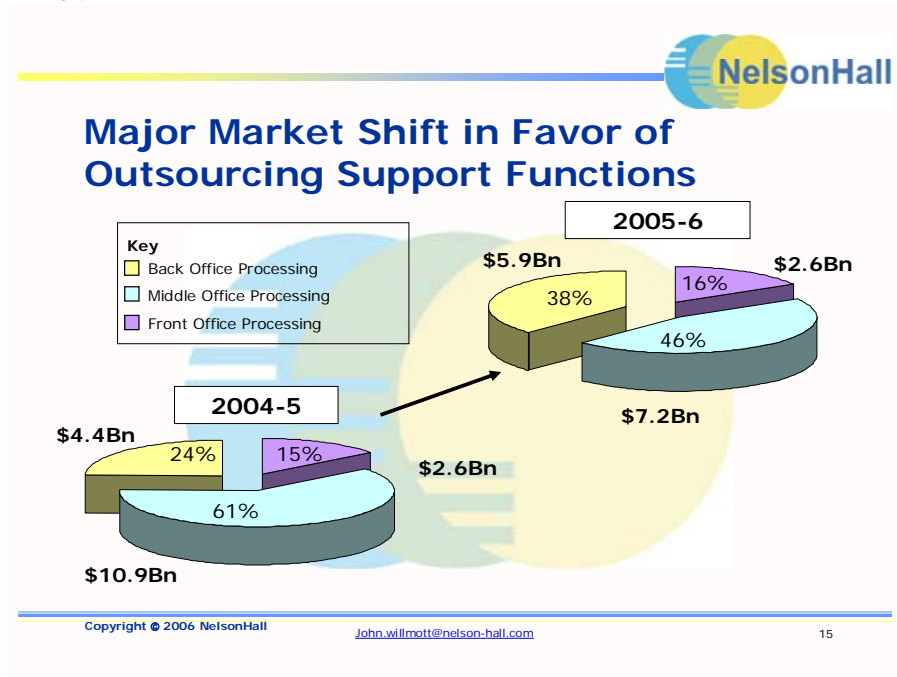
**Exhibit III-6**



This effect is largely attributable to a change in the shape of the BPO contract award portfolio. Over the past twelve months, there has been a significant decrease in activity in multi-process contract awards covering industry-specific processes. These contracts, typically in the government and financial services sectors, were a major source of the largest BPO contracts in previous years.

This change in emphasis by service type is shown in Exhibit III-7. Over the past twelve months, there has been a marked decline in TCV in industry-specific middle-office contract awards and an increased emphasis on outsourcing back-office functions, particularly HR outsourcing.

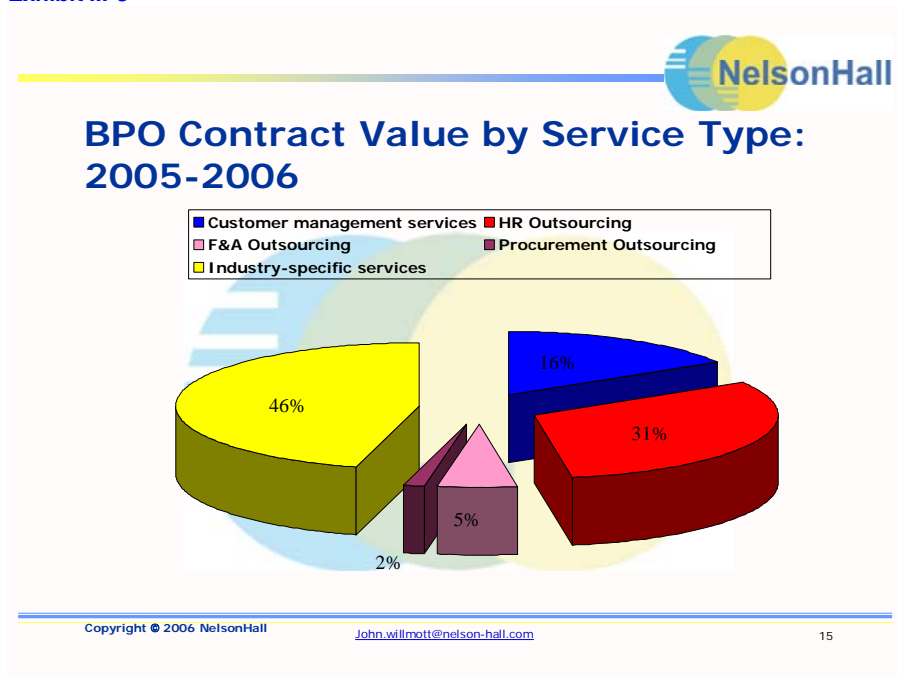
Exhibit III-7



This can partly be explained by the maturity and stage in their life-cycle of the various BPO markets. The major HR outsourcing vendors have recently moved to a second-generation delivery model and this has led to renewed contract activity.

A further breakdown by service type of BPO contract value awarded in the twelve months ending June 2006 is shown in Exhibit III-8.

Exhibit III-8

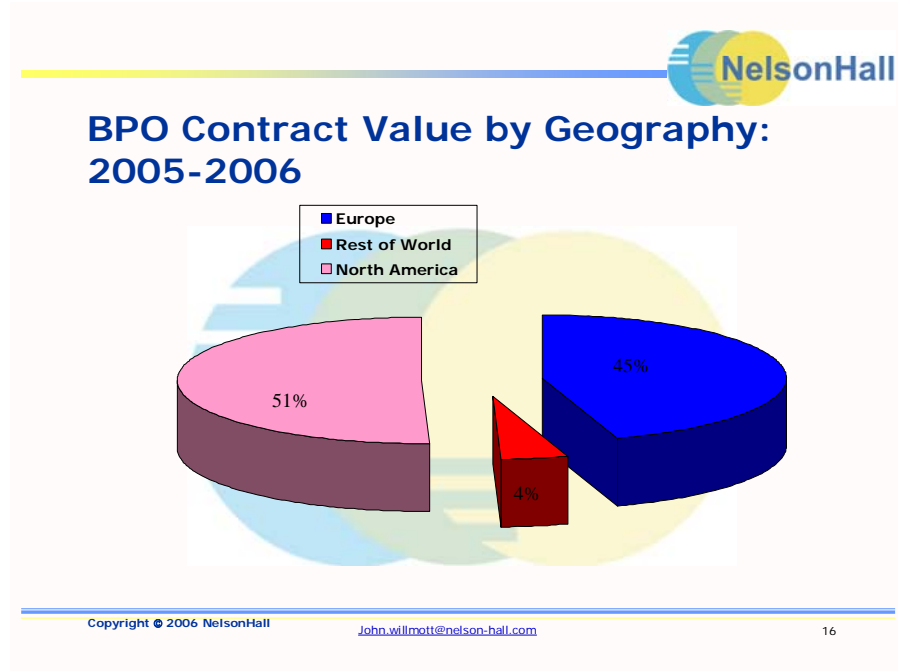


This shows the recent dominance of major HR outsourcing contracts within the back-office support functions.



Exhibit III-9 shows the breakdown of global BPO contract value over the twelve months ending June 2006 by region.

**Exhibit III-9**



Although there is BPO contract activity in the high cost economies of Asia Pacific such as Australia and Japan, BPO contract activity remains concentrated in the high cost economies of North America and Europe.

Within Europe, BPO adoption is also strongly concentrated in the U.K. though there are strongly emerging BPO markets in Benelux and central Europe, where the banking sector is particularly active. BPO activity in the Nordic region has been relatively low so far.

Exhibit III-10 shows the pattern of BPO contract activity within Europe over the twelve months ending June 2006.

**Exhibit III-10**

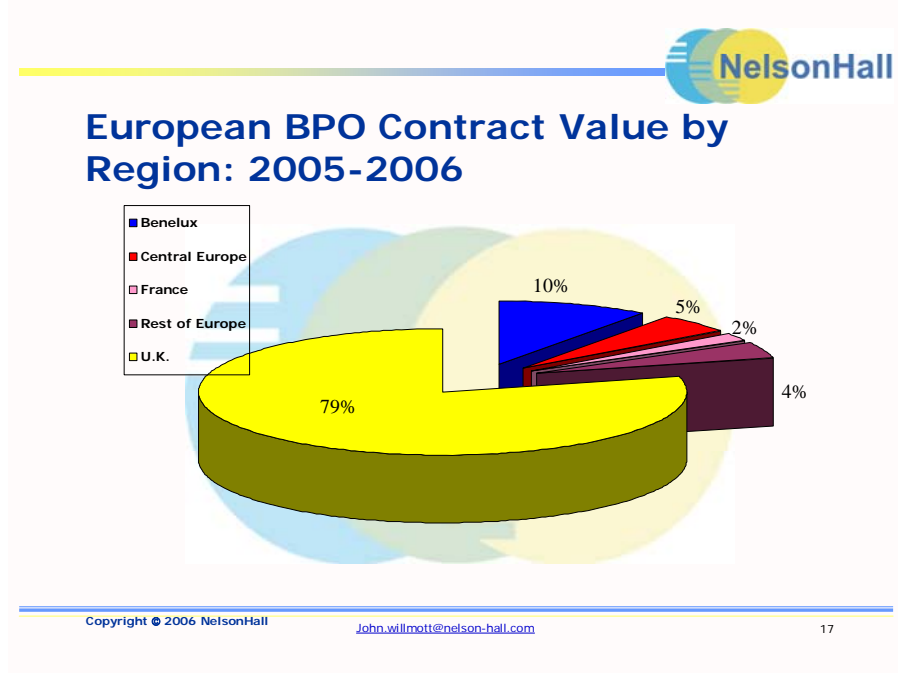


Exhibit III-11 shows the extent to which offshore and nearshore delivery capability currently contributes to BPO delivery value.

**Exhibit III-11**

**Offshore & Nearshore BPO Delivery Value**

	1995 Value (\$Bn)	Proportion (%)
Total BPO Market	135.4	100%
Global offshore and nearshore BPO delivery	14.3	11%
Indian offshore BPO delivery	6.3	5%

Source: NelsonHall

Despite the importance of labour arbitrage in the outsourcing of processes such as finance and accounting, offshore and nearshore delivery currently accounts for only 11% of total BPO delivery value.

India remains the dominant centre for nearshore and offshore delivery and accounts for approximately 45% of global offshore and nearshore BPO delivery value. Accordingly, the slower than expected growth of Indian BPO delivery value cannot be attributed to the failure of India to maintain a high market share of offshore delivery, though India will be increasingly challenged by China in the future, but rather the failure of BPO to overtake IT outsourcing as the dominant form of outsourcing.

The reasons for this relative failure are explored further later in this report.

# B

## Extent of Convergence between IT Outsourcing and BPO

While many vendors offer IT outsourcing services, particularly application management, alongside BPO services, and sometimes application management services will be purchased alongside BPO services, at present there is a low level of convergence between IT outsourcing and BPO.

The major reason for this is that at present the vendor does not have control of the related IT systems in the majority of BPO contracts. Exhibit III-12 shows the level of vendor control of associated IT systems by service type.

*Exhibit III-12*

### Vendor Control of IT Systems within BPO Contracts

Service Type	Level of Involvement with Core IT Systems	Level of Offshoring
Contact centre and call centre services	Low; typically interface with client systems	Very High
HR services	Traditionally low, but increasing vendor insistence on platform acquisition	Traditionally low but moving to multi-shore model
Finance & accounting services	Low, typically interface with client systems	Very High
Indirect procurement services		Moderate
Industry-specific services		
- sub-processes	Low, typically interface with client systems	High
- multi-process	High, typically take over client systems onshore	Very low


At present, there are essentially two ways in which BPO services are delivered. For contact centre services, F&A outsourcing, and industry-specific sub-process outsourcing, the approach taken is predominantly based on labour arbitrage followed by process improvement. In these cases, the outsourcing vendor typically undertakes knowledge transfer, implements appropriate imaging, workflow and agent management around the tasks outsourced and establishes an offshore capability within one of its centres. Involvement with core IT systems is typically limited to interfacing with these.

The second approach is typically used for major multi-process industry-specific BPO contracts and transformational BPO contracts. In these cases, service delivery typically involves acquisition of client onshore delivery facilities, including related IT systems. However so far these contracts typically involve low levels of offshore service delivery, though there is often an intention to build multi-client multishore utilities around these contracts. However, the industry-specific BPO market is still relatively immature and these multishore utility services including control of IT platforms are not yet a market reality.

Exhibit III-13 shows the delivery models used within BPO contracts. At present, the predominant modes of delivery are multi-process client-specific onshore service delivery and offshore labour arbitrage for F&A outsourcing and outsourcing of numerous sub-processes.

**Exhibit III-13**

## BPO Delivery Models




### The Economics of BPO

<p>Client delivery-specific &amp; multi-process</p> <ul style="list-style-type: none"> <li>• Still the only approach for complex/industry-specific multi-process services</li> <li>• Highly tuned client delivery facilities have lower value than believed</li> <li>• Largely onshore to start</li> <li>• Sub-processes can be gradually moved offshore</li> <li>• Target 20% cost reduction from process improvement after transition</li> <li>• Target service improvement simultaneously</li> <li>• Typically used for customer service reengineering without investment</li> </ul>	<p>Sub-process offshoring</p> <ul style="list-style-type: none"> <li>• Client-specific sub-processes only</li> <li>• Target 40% from labor arbitrage after transition</li> <li>• Limited process improvement</li> </ul> <p>Multi-shore utility delivery</p> <ul style="list-style-type: none"> <li>• More limited in process scope than client-specific</li> <li>• The future lies in integrated multi-shore delivery not pure offshore</li> <li>• Target 20% cost reduction from process improvement</li> <li>• Target 40% from labor arbitrage within offshored elements</li> </ul>
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Exhibit III-14 shows the current delivery model for F&A outsourcing.

**Exhibit III-14**



### Delivery Model for F&A Outsourcing

- Vendors currently "ERP agnostic"
- Typically ERP application remains owned by the client
  - However, this model may change in the medium-term. HR outsourcing is currently switching from a model where the client owns the ERP to a model where the vendor owns the ERP and implements a high level of technology and process standardization. This is not yet happening within F&A but could so within a few years
- Vendor implements "tools on top" to provide workflow and integration with specialist tools
- Heavily dependent on labor arbitrage to achieve cost savings in excess of 20%
- Highly dependent on use of existing vendor service centers in low cost locations in Latin/Central America, Eastern Europe and Asia

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However, the level of involvement and control of core IT systems can be expected to increase over the next few years, as:

- ❑ SOA-type approaches facilitate the ability to integrate with standard platforms used by BPO vendors
- ❑ BPO vendors acquire platform capability and offer BPO services based on these
- ❑ BPO vendors increasingly develop utility services based on standard platforms and processes and insist on platform control. This is already starting to happen in second-generation HR outsourcing contracts.

## C

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### Changing Scope of BPO Contracts

The process scope of new BPO contracts appears to have narrowed over the past twelve months. The process scope of the majority of offshore-centric BPO contracts is currently very limited and there has been a downturn in the number of multi-process industry-specific contracts with a very wide process scope.

Nonetheless process scope will increase over the next few years. For example:

- ❑ HR outsourcing vendors are steadily increasing their service capability to include a greater emphasis on HR silos in areas such as recruitment and talent management
- ❑ F&A outsourcing vendors are placing an increased emphasis on value-added and analytics services
- ❑ Industry-specific utilities will begin to come on-stream in the longer term.

Chapter  
4

# BPO Competitiveness

Exhibit IV-1 shows the breakdown of evaluations of the feasibility of utilizing captive centres and/or business process outsourcing completed by organizations over the past two years.

*Exhibit IV-1*

### Number of Evaluations Completed

	Average
Total number of evaluations	3.5
Number of evaluations where BPO evaluated on its own	2.1
Number of evaluations where captive centres investigated on their own	0.4
Number of evaluations where both BPO and captive centres evaluated	1.0

Overall organizations are evaluating BPO on its own within approximately 60% of sourcing evaluations, with captive centres explored as an additional possibility in approximately 30% of evaluations. Captive centres are investigated as the only sourcing option in approximately 10% of evaluations.

Overall BPO is considered in approximately 90% of sourcing evaluations while the possibility of using captive centres is considered in approximately 40% of sourcing evaluations.

Exhibits IV-2 to IV-4 show by country, the breakdown of evaluations of the feasibility of utilizing captive centres and/or business process outsourcing completed by organizations over the past two years.

*Exhibit IV-2*

**Number of Evaluations Completed: France**

	<b>Average</b>
Total number of evaluations	3.1
Number of evaluations where BPO evaluated on its own	1.6
Number of evaluations where captive centres investigated on their own	0.3
Number of evaluations where both BPO and captive centres evaluated	1.1

*Exhibit IV-3*

**Number of Evaluations Completed: Germany**

	<b>Average</b>
Total number of evaluations	4.2
Number of evaluations where BPO evaluated on its own	2.3
Number of evaluations where captive centres investigated on their own	0.5
Number of evaluations where both BPO and captive centres evaluated	1.4

*Exhibit IV-4*

**Number of Evaluations Completed: U.K.**

	<b>Average</b>
Total number of evaluations	3.2
Number of evaluations where BPO evaluated on its own	2.2
Number of evaluations where captive centres investigated on their own	0.4
Number of evaluations where both BPO and captive centres evaluated	0.6

The evaluation of business process outsourcing as the only alternative is more prevalent in the U.K., where BPO is evaluated in isolation within approximately 70% of sourcing evaluations, than in France and Germany where BPO is evaluated on its own in approximately 50% of evaluations.

The captive centre option is considered more frequently in France and Germany than in the U.K. In France and Germany, captive centres are considered within 45% of sourcing evaluations compared to within 30% of sourcing evaluations in the U.K.

Exhibit IV-5 shows the breakdown of evaluations by service type.

**Exhibit IV-5**

**Number of Evaluations by Service Type**

Service Type	Number	Proportion (%)
Contact centre and call centre services	0.9	26
HR services	0.8	23
Finance & accounting services	0.7	20
Indirect procurement services	0.3	9
Industry-specific services	0.8	22

Approximately two-thirds of evaluations were concentrated in the more mature horizontal BPO services of customer management services, HR services, and finance & accounting services.

Industry specific services accounted for approximately a quarter of evaluations with indirect procurement services included within approximately 10% of sourcing evaluations.

Exhibits IV-6 to IV-8 show by country the breakdown of evaluations by service type.

**Exhibit IV-6**

**Number of Evaluations by Service Type: France**

Service Type	Number	Proportion (%)
Contact centre and call centre services	0.7	23
HR services	0.6	19
Finance & accounting services	0.5	16
Indirect procurement services	0.4	13
Industry-specific services	0.9	29

**Exhibit IV-7**

**Number of Evaluations by Service Type: Germany**

Service Type	Number	Proportion (%)
Contact centre and call centre services	1.0	24
HR services	1.1	27
Finance & accounting services	0.9	22
Indirect procurement services	0.1	2
Industry-specific services	1.0	24



*Exhibit IV-8***Number of Evaluations by Service Type: U.K.**

Service Type	Number	Proportion (%)
Contact centre and call centre services	1.0	30
HR services	0.6	18
Finance & accounting services	0.7	21
Indirect procurement services	0.3	9
Industry-specific services	0.7	21

The pattern of evaluations is broadly similar by country though the levels of HR services and finance & accounting services evaluations appear relatively high in Germany.

Exhibit IV-9 shows how many of the completed evaluations resulted in BPO contracts being awarded and how many resulted in captive centres being established.

*Exhibit IV-9***BPO Contracts Awarded**

	Number	Proportion (%)
Number of BPO contracts awarded	2.0	57
Number of captive centres established	0.5	14
Number of evaluations where neither occurred	1.0	29

Evaluations lead to the award of a BPO contract or the establishment of a captive centre in approximately 70% of cases. Overall evaluations tend to favour the award of a BPO contract over the establishment of a captive centre. BPO awards are made in 65% of evaluations where BPO is considered, whereas captive centres are established in approximately 35% of cases where captive centres are considered.

BPO is predominantly favoured over captive centres for reasons relating to improved expertise and quality of service rather than for cost or investment related reasons. The principal reasons why BPO was adopted as the preferred approach were identified to be:

- Need for external expertise, particularly in systems and processes (20)
- Need improved quality of service over current in-house service (17)
- Speed to market/service (15)
- Lower cost approach (13)
- Less internal investment required (10)
- Increased service flexibility (8)
- Reduced internal management involvement (7).

Other factors mentioned included to reduce internal risk and an inability to manage the level of change internally.

Exhibits IV-10 to IV-12 show by country, how many of the completed evaluations resulted in BPO contracts being awarded and how many resulted in captive centres being established.

*Exhibit IV-10***BPO Contracts Awarded: France**

	Number	Proportion (%)
Number of BPO contracts awarded	2.0	65
Number of captive centres established	0.5	16
Number of evaluations where neither occurred	0.6	19

*Exhibit IV-11***BPO Contracts Awarded: Germany**

	Number	Proportion (%)
Number of BPO contracts awarded	2.8	67
Number of captive centres established	0.6	14
Number of evaluations where neither occurred	0.8	19

*Exhibit IV-12***BPO Contracts Awarded: U.K.**

	Number	Proportion (%)
Number of BPO contracts awarded	1.4	44
Number of captive centres established	0.4	12
Number of evaluations where neither occurred	1.4	44

Perhaps surprisingly the level of rejection of both captive centre and BPO options appears to be highest in the U.K. where over 40% of evaluations lead to no service establishment, compared to approximately 20% of evaluations in France and Germany.

Exhibit IV-13 shows the breakdown of evaluations which resulted in a BPO contract being awarded by service type.

**Exhibit IV-13**

**BPO Contracts Awarded by Service Type**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.5	25
HR outsourcing	0.5	25
Finance & accounting outsourcing	0.4	20
Indirect procurement outsourcing	0.1	5
Industry-specific services	0.5	25

The proportion of evaluations that lead to BPO contract awards are roughly constant by service type at 60%, with the exception of indirect procurement outsourcing where the level of positive evaluations appears to be approximately half this level.

Exhibits IV-14 to IV-16 show by country, the breakdown of evaluations which resulted in a BPO contract being awarded by service type.

**Exhibit IV-14**

**BPO Contracts Awarded by Service Type: France**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.4	21
HR outsourcing	0.5	26
Finance & accounting outsourcing	0.4	21
Indirect procurement outsourcing	0.1	6
Industry-specific services	0.5	26

**Exhibit IV-15**

**BPO Contracts Awarded by Service Type: Germany**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.7	24
HR outsourcing	0.7	24
Finance & accounting outsourcing	0.6	21
Indirect procurement outsourcing	0.1	3
Industry-specific services	0.8	28

*Exhibit IV-16***BPO Contracts Awarded by Service Type: U.K.**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.4	29
HR outsourcing	0.3	21
Finance & accounting outsourcing	0.3	21
Indirect procurement outsourcing	0	0
Industry-specific services	0.4	29

Exhibit IV-17 shows the breakdown of evaluations which resulted in a captive centre being established by service type.

*Exhibit IV-17***Captive Centres Established by Service Type**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.2	40
HR offshoring	0.0	0
Finance & accounting offshoring	0.1	20
Indirect procurement offshoring	0.0	0
Industry-specific offshoring	0.2	40

The likelihood of the organization either awarding a BPO contract or establishing a shared service centre as a result of a sourcing evaluation is highest for industry-specific services and contact and call centre services, with the likelihood of inaction greatest for indirect procurement and HR services.

The highest adoption levels of captive centres is in contact centre and call centre offshoring and in industry-specific offshoring where approximately 25% of evaluations lead to establishment of captive centres. Approximately 15% of finance and accounting evaluations lead establishment of captive centres. Captive centres are currently typically not favoured for HR services and indirect procurement services.

Captive centres appear to be principally favoured over BPO in order to utilize existing internal capacity and expertise and to avoid payment of third-party margins. The principal reasons why captive centres were preferred by organizations were identified to be:

- Lower cost approach/avoidance of third-party margin (10)
- Need/desire to utilize capacity in existing site & prior existence of own offshore capability (8)
- To achieve greater/direct control of service (6)
- To ensure retention of own expertise and experience (4)
- To ensure service quality (3)
- Greater flexibility to change onshore/offshore mix as appropriate (2)
- Greater cost control (2).

Exhibits IV-18 to IV-20 show by country, the breakdown of evaluations which resulted in a captive centre being established by service type.

**Exhibit IV-18**

**Captive Centres Established by Service Type: France**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.3	50
HR offshoring	0	0
Finance & accounting offshoring	0.1	17
Indirect procurement offshoring	0	0
Industry-specific offshoring	0.2	33

**Exhibit IV-19**

**Captive Centres Established by Service Type: Germany**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.2	33
HR offshoring	0	0
Finance & accounting offshoring	0.1	17
Indirect procurement offshoring	0	0
Industry-specific offshoring	0.3	50

**Exhibit IV-20**

**Captive Centres Established by Service Type: U.K.**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.2	40
HR offshoring	0	0
Finance & accounting offshoring	0.1	20
Indirect procurement offshoring	0	0
Industry-specific offshoring	0.2	40

Sourcing managers were asked unprompted to identify the principal reasons for non-adoption of BPO and then asked to rate the importance of each of a number of given potential reasons.

The principal reasons for non-adoption of BPO are the level of perceived risk together with lack of adequate vendor capability, including the ability of vendors to demonstrate their capabilities and justify their business cases. The major factors behind rejection of BPO were identified unprompted to be:

- ❑ Too high risk (11)
- ❑ Lack of suitable vendor, including poor bidding performance (8)
- ❑ Lack of understanding by vendor (6)
- ❑ Vendor could not justify their claims (6)
- ❑ Lack of significant cost advantage (5)
- ❑ Poor vendor communication (3)
- ❑ Cost of bringing service back in-house if necessary (2)
- ❑ Impact on employees (2)
- ❑ Lack of internal support (2).

Sourcing managers were then prompted with a number of potential factors and asked to rate their importance on a 1-5 scale. Exhibit IV-21 shows the relative significance of each of these factors for BPO rejection.

*Exhibit IV-21*

**Potential Factors for BPO Rejection**

Factor	Significance
Perception of greater contract & legal risk	4.0
Lack of process operations knowledge within vendor	3.8
Lack of vendor service maturity	3.4
Lack of client company knowledge within vendor	3.4
Unproven service delivery quality	3.4
Lack of suitable offshore service delivery capability	3.3
Compliance concerns	3.3
Inappropriate service locations or location mix	3.2
Lack of demonstrable success stories	3.1
Unproven cost reduction capability	3.1

Overall the principal reason leading to BPO rejection is a perception of high contract and legal risk, perceived to be a highly significant factor in BPO service rejection by approximately three-quarters of sourcing managers.

However, there are also a number of major areas of concern regarding vendor knowledge and capability. In particular, vendors need to address their process operations knowledge (an area of high concern to two-thirds of sourcing managers) and their client company knowledge (of high concern to 50% of sourcing managers). Coupled to this approximately 45% of sourcing managers have concerns regarding compliance issues.

In addition, there are still major levels of concern regarding vendor service maturity and the availability of suitable offshore service capability, both of high concern to approximately 45% of sourcing managers.

In Germany sourcing managers have much higher levels of concern regarding the availability of a suitable portfolio of offshoring capability. In particular, approximately 60% of German sourcing managers exhibit high concern regarding a lack of suitable offshore service delivery capability and suitable service delivery locations.

Exhibits IV-22 to IV-24 show by country, the significance of each of a number of potential factors for BPO rejection.

*Exhibit IV-22*

**Potential Factors for BPO Rejection: France**

Factor	Significance
Perception of greater contract & legal risk	4.0
Lack of process operations knowledge within vendor	3.9
Lack of vendor service maturity	3.5
Unproven service delivery quality	3.4
Unproven cost reduction capability	3.4
Lack of client company knowledge within vendor	3.3
Lack of suitable offshore service delivery capability	3.2
Inappropriate service locations or location mix	3.2
Compliance concerns	3.1
Lack of demonstrable success stories	3.0

*Exhibit IV-23*

**Potential Factors for BPO Rejection: Germany**

Factor	Significance
Lack of suitable offshore service delivery capability	3.8
Perception of greater contract & legal risk	3.7
Inappropriate service locations or location mix	3.6
Lack of process operations knowledge within vendor	3.6
Unproven service delivery quality	3.6
Lack of client company knowledge within vendor	3.5
Lack of demonstrable success stories	3.2
Compliance concerns	3.2
Lack of vendor service maturity	3.1
Unproven cost reduction capability	2.8

*Exhibit IV-24*

**Potential Factors for BPO Rejection: U.K.**

Factor	Significance
Perception of greater contract & legal risk	4.2
Lack of process operations knowledge within vendor	3.8
Lack of vendor service maturity	3.5
Lack of client company knowledge within vendor	3.4
Unproven service delivery quality	3.4
Compliance concerns	3.4
Lack of demonstrable success stories	3.2
Unproven cost reduction capability	3.1
Lack of suitable offshore service delivery capability	3.0
Inappropriate service locations or location mix	2.9

Exhibit IV–25 shows the average number of evaluations of outsourcing of application development and support functions carried out over the past two years, and the number of occasions an application development outsourcing and support contract was awarded.

*Exhibit IV-25*

**Outsourcing of Application Development and Support Functions**

	Number
Number of application development and support outsourcing evaluations	4.2
Number of application development and support outsourcing contracts awarded	3.3

Overall 80% of application development and support outsourcing evaluations result in contracts being awarded. Major reasons why application development and support contracts were not awarded include:

- Resulting dependence on vendor for application support (6)
- Need for internal knowledge retention (5)
- Poor availability of skills within vendors (4)
- Completion time too long (2)
- Existence of surplus internal development personnel (2).



Success rates are broadly similar by country. Exhibits IV–26 to IV-28 show by country, the average number of evaluations of outsourcing of application development and support functions carried out over the past two years, and on how many occasions an application development outsourcing and support contract was awarded.

*Exhibit IV-26*

**Outsourcing of Application Development and Support Functions:  
France**

	Number
Number of application development and support outsourcing evaluations	5.6
Number of application development and support outsourcing contracts awarded	4.4

*Exhibit IV-27*

**Outsourcing of Application Development and Support Functions:  
Germany**

	Number
Number of application development and support outsourcing evaluations	3.2
Number of application development and support outsourcing contracts awarded	2.6

*Exhibit IV-28*

**Outsourcing of Application Development and Support Functions:  
U.K.**

	Number
Number of application development and support outsourcing evaluations	3.9
Number of application development and support outsourcing contracts awarded	3.0

Exhibit IV–29 shows how the patterns of usage of BPO and captive centres are predicted to change over the next two years.

*Exhibit IV-29*

**Patterns of Usage Predictions**

	Increase (%)	Stay Same (%)	Decrease (%)
BPO contract awards on evaluation	38.1	51.5	9.3
Ratio of captive centres to award of BPO contracts	12.4	64.9	21.6
Offshore component within BPO service delivery	20.6	54.6	24.7

Overall sourcing managers expect the level of BPO contract awards on evaluation to increase in future and the ratio of BPO awards to increase relative to the establishment of captive centres. These patterns would be expected in line with increasing vendor capability and maturity.

Exhibits IV-30 to IV-32 show by country, how the patterns of usage of BPO and captive centres are predicted to change over the next two years.

**Exhibit IV-30**

**Patterns of Usage Predictions: France**

	<b>Increase (%)</b>	<b>Stay Same (%)</b>	<b>Decrease (%)</b>
BPO contract awards on evaluation	43	50	7
Ratio of captive centres to award of BPO contracts	0	70	30
Offshore component within BPO service delivery	23	57	20

**Exhibit IV-31**

**Patterns of Usage Predictions: Germany**

	<b>Increase (%)</b>	<b>Stay Same (%)</b>	<b>Decrease (%)</b>
BPO contract awards on evaluation	40	53	7
Ratio of captive centres to award of BPO contracts	17	67	17
Offshore component within BPO service delivery	30	43	27

**Exhibit IV-32**

**Patterns of Usage Predictions: U.K.**

	<b>Increase (%)</b>	<b>Stay Same (%)</b>	<b>Decrease (%)</b>
BPO contract awards on evaluation	32	51	14
Ratio of captive centres to award of BPO contracts	19	60	19
Offshore component within BPO service delivery	11	62	27

Exhibit IV–33 shows overall and by country the profile of relevance of legal protection when organizations are considering going offshore.

*Exhibit IV-33*

**Importance of Availability of Legal Protection**

Relevance	Overall (%)	France (%)	Germany (%)	U.K. (%)
Low	1	0	3	0
Medium	11	10	13	11
High	88	90	84	89

This issue is clearly highly important across all three geographies.

Exhibit IV–34 shows the perceived relevance of each of a number of potential legal issues when offshoring.

*Exhibit IV-34*

**Relevance of Legal Issues**

Legal Issue	Relevance
Protection of Intellectual Property Rights	4.6
Being able to enforce my contract against the offshore provider	4.6
A data protection system that allows cross-border data transfers	4.5
Technology transfer laws	4.1
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.6

Protection of IPR, contract enforcement, and data protection are highly important issues to over 90% of sourcing managers. Laws relating to the transfer of personnel are generally regarded as less important than laws relating to IPR, data protection and contract enforcement.

This pattern of legal requirement is broadly similar across organizations in France, Germany and the U.K.

Exhibits IV-35 to IV-37 show by country, the perceived relevance of each of a number of potential legal issues when offshoring.

*Exhibit IV-35*

**Relevance of Legal Issues: France**

Legal Issue	Relevance
Being able to enforce my contract against the offshore provider	4.8
Protection of Intellectual Property Rights	4.5
A data protection system that allows cross-border data transfers	4.4
Technology transfer laws	4.0
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.2

*Exhibit IV-36*

**Relevance of Legal Issues: Germany**

Legal Issue	Relevance
Protection of Intellectual Property Rights	4.5
A data protection system that allows cross-border data transfers	4.5
Being able to enforce my contract against the offshore provider	4.4
Technology transfer laws	3.9
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.7

*Exhibit IV-37*

**Relevance of Legal Issues: U.K.**

Legal Issue	Relevance
Protection of Intellectual Property Rights	4.6
Being able to enforce my contract against the offshore provider	4.6
A data protection system that allows cross-border data transfers	4.6
Technology transfer laws	4.4
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.8

## Chapter

## 5

# Delivery Location Quality Perceptions

Exhibit V-1 shows the overall perceptions of the quality of BPO delivery capability within each of a number of geographies.

*Exhibit V-1***Quality Perceptions**

Delivery Location	Quality
Malaysia	3.8
India	3.8
China	3.6
Philippines	3.4
Asia Overall	3.6
Russia	3.4
Czech Republic	3.2
Poland	3.2
Hungary	3.2
Romania	3.2
Eastern Europe Overall	3.3
Brazil	3.3
Mexico	3.3
Argentina	3.2
Latin America Overall	3.3
South Africa	3.3

Tunisia	3.1
Morocco	2.7
Ghana	2.6
Africa Overall	2.9

Overall the quality of BPO delivery capability is perceived to be higher in Asia than in Eastern Europe or elsewhere, with China following closely in perceived BPO delivery capability behind more established locations in India and Malaysia.

Overall two-thirds of sourcing managers perceive that high quality BPO service delivery is available in India and Malaysia, with nearly 60% perceiving that high quality BPO service delivery is available in China.

While approximately 60% of sourcing managers perceive there to be high quality of BPO service delivery within India, only 42% of sourcing managers perceive there to be high quality BPO service delivery within Eastern Europe. The proportion at 38% is similar for Latin America overall, while just 16% of sourcing managers perceive there to be high quality service delivery availability in Africa overall.

Within the individual regions, perceptions of individual countries are broadly similar with Eastern Europe and Latin America, though Brazil is slightly more highly favoured within the latter and Romania slightly less favoured within Eastern Europe.

However, as might be expected, there are wide fluctuations in attitudes towards BPO delivery capability within the African countries, with South Africa highly regarded by almost 50% of sourcing managers, Tunisia by a third of sourcing managers, and Ghana by just 8% of sourcing managers.

There are also some significant variations in attitude by European country. These are most noticeable for Asia BPO service delivery in terms of attitudes towards India. While 80% of U.K. sourcing managers perceive high BPO delivery capability within India, this proportion falls to 63% for sourcing managers in Germany, and to 50% for sourcing managers based in France.

Attitudes towards China are less polarized but exhibit a similar pattern with attitudes most favourable within the U.K. Sourcing managers in France typically regard Malaysia as having greater BPO service delivery capability than either India or China.

Exhibits V-2 to V-4 show by country, the overall perceptions of the quality of BPO delivery capability within each of a number of geographies.

**Exhibit V-2**

**Quality Perceptions: France**

Delivery Location	Quality
Malaysia	3.8
India	3.5
China	3.5
Philippines	3.3
Asia Overall	3.5
Russia	3.3
Poland	3.2
Czech Republic	3.1
Hungary	3.1
Romania	3.1
Eastern Europe Overall	3.1
Brazil	3.5
Mexico	3.4
Argentina	3.3
Latin America Overall	3.4
South Africa	3.6
Tunisia	3.5
Morocco	3.0
Ghana	2.8
Africa Overall	3.4

Locations in Africa, particularly South Africa and Tunisia, are relatively highly favoured by sourcing managers in France. Sixty-eight percent of sourcing managers in France perceive there to be high quality BPO service delivery available in South Africa, with the corresponding figures for Tunisia and Morocco being 55% and 25%.

## Exhibit V-3

## Quality Perceptions: Germany

Delivery Location	Quality
India	3.7
China	3.7
Malaysia	3.7
Philippines	3.4
Asia Overall	3.6
Russia	3.7
Czech Republic	3.4
Poland	3.4
Hungary	3.4
Romania	3.4
Eastern Europe Overall	3.4
Mexico	3.4
Brazil	3.2
Argentina	3.2
Latin America Overall	3.2
South Africa	3.1
Tunisia	2.8
Morocco	2.4
Ghana	2.3
Africa Overall	2.6

Locations in Eastern Europe are relatively highly favoured by sourcing managers in Germany, with Russia relatively highly regarded alongside the more established BPO locations of Poland, Hungary and Romania.



Exhibit V-4

## Quality Perceptions: U.K.

Delivery Location	Quality
India	4.0
Malaysia	3.8
China	3.7
Philippines	3.4
Asia Overall	3.7
Czech Republic	3.2
Poland	3.2
Hungary	3.2
Russia	3.2
Romania	3.1
Eastern Europe Overall	3.2
Argentina	3.3
Mexico	3.3
Brazil	3.2
Latin America Overall	3.3
South Africa	3.2
Tunisia	3.0
Morocco	2.7
Ghana	2.6
Africa Overall	2.9

Predictably, India remains the major focus of U.K. sourcing managers.

Exhibit V-5 shows how sourcing managers would allocate 100 personnel across geographies for each of a number of BPO categories.

*Exhibit V-5*

### BPO Personnel Allocation

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	58.3	58.8	56.3	68.5	59.6	61.8	57.2
China	17.8	18.1	18.1	12.3	16.1	18.0	17.9
Philippines	0.3	0.1	0.2	0.1	0.2	0.1	0.6
Malaysia	1.8	1.6	1.1	1.1	1.7	1.9	4.1
Asia Overall	78.1	78.8	75.7	82.4	77.5	82.0	79.7
Czech Republic	4.1	5.9	5.1	5.0	4.9	4.0	3.5
Poland	4.3	4.9	4.8	2.9	4.8	3.6	2.7
Hungary	1.2	1.2	1.3	1.5	1.9	0.9	1.0
Romania	5.2	4.6	5.0	3.8	3.6	3.2	5.6
Russia	1.6	1.3	2.1	1.3	1.8	1.2	1.2
Eastern Europe Overall	16.4	17.8	18.3	14.4	17.0	12.7	14.0
Brazil	0.9	0.7	0.9	0.5	0.8	1.0	0.7
Argentina	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Mexico	0.9	0.8	1.0	0.7	1.1	0.7	0.3
Latin America Overall	2.1	1.6	2.1	1.1	1.9	1.9	1.0
South Africa	2.7	1.3	2.4	2.0	2.8	3.1	5.0
Tunisia	0.6	0.2	1.2	0.2	0.5	0.2	0.2
Ghana	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Morocco	0.1	0.1	0.4	0.1	0.1	0.1	0.1
Africa Overall	3.5	1.6	4.2	2.3	3.1	3.5	5.3

China has emerged strongly into second place in popularity with sourcing managers behind India, with China particularly favoured by German sourcing managers and for finance and accounting services.

India and China are followed in popularity overall by countries in Eastern Europe, with Romania emerging strongly alongside Poland and the Czech Republic. However, sourcing managers in the U.K. would allocate a lower proportion of personnel to countries in Eastern Europe than would their counterparts in France and Germany.

Exhibits V-6 to V-8 show by country, how sourcing managers would allocate 100 personnel across geographies for each of a number of BPO categories.

*Exhibit V-6*

**BPO Personnel Allocation: France**

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	60	58	52	67	61	58	56
China	13	15	17	10	12	20	16
Philippines	1	0	1	1	1	0	1
Malaysia	1	1	1	1	1	1	4
Asia Overall	75	74	71	79	75	79	77
Czech Republic	6	9	6	8	8	6	5
Poland	5	5	6	3	6	4	4
Hungary	2	2	2	2	2	2	2
Romania	6	7	5	5	4	4	5
Russia	1	2	2	2	2	2	2
Eastern Europe Overall	20	24	21	20	22	18	18
Brazil	0	0	0	0	0	0	0
Argentina	0	0	0	0	0	0	0
Mexico	0	0	1	0	0	0	0
Latin America Overall	0	0	1	0	0	0	0
South Africa	2	1	2	0	0	2	4
Tunisia	2	1	4	1	2	1	1
Ghana	0	0	0	0	0	0	0
Morocco	0	0	1	0	1	0	0
Africa Overall	4	2	7	1	3	3	5

Exhibit V-7

## BPO Personnel Allocation: Germany

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	50	51	55	64	55	58	53
China	23	23	19	16	19	19	23
Philippines	0	0	0	0	0	0	1
Malaysia	3	3	2	2	2	3	6
Asia Overall	76	77	76	82	76	80	83
Czech Republic	5	6	6	6	5	5	3
Poland	4	6	5	3	5	4	1
Hungary	1	1	1	3	3	0	0
Romania	6	4	5	4	3	4	4
Russia	1	1	2	0	1	0	0
Eastern Europe Overall	17	18	19	16	17	13	9
Brazil	2	2	2	1	2	3	2
Argentina	1	0	0	0.5	0	0	0
Mexico	1	1	1	0.5	1	1	0
Latin America Overall	4	3	3	2	3	4	2
South Africa	4	2	2	2	3	3	6
Tunisia	0	0	1	0	0	0	0
Ghana	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0
Africa Overall	4	2	3	2	3	3	6

Exhibit V-8

## BPO Personnel Allocation: U.K.

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	64	66	60	74	62	68	61
China	17	17	18	11	17	16	15
Philippines	0	0	0	0	0	0	0
Malaysia	2	1	1	1	1	2	3
Asia Overall	83	84	79	86	80	86	79
Czech Republic	2	3	3	2	3	2	3
Poland	4	4	4	3	4	2	3
Hungary	1	1	1	0	1	1	1
Romania	4	3	5	3	3	2	7
Russia	2	2	2	1	2	2	1
Eastern Europe Overall	13	13	15	9	13	9	15
Brazil	1	1	2	0	0	0	2
Argentina	0	0	0	0	0	0	0
Mexico	1	1	1	1	2	1	0
Latin America Overall	2	2	3	1	2	1	2
South Africa	2	1	3	4	4	4	5
Tunisia	0	0	0	0	0	0	0
Ghana	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0
Africa Overall	2	1	3	4	4	4	5

Sourcing managers were asked to identify unprompted the key attributes that they would look for in selecting a location for business process services whether delivered via a captive or a third-party supplier and then subsequently prompted with a list of potential characteristics and asked to rate the importance of each of these on a 1-5 scale.

The key criteria in location selection for BPO were identified unprompted to be:

- ❑ Political stability (48)
- ❑ Legal protection (35)
- ❑ Quality of infrastructure (26)
- ❑ Quality of workforce (17)
- ❑ Knowledge of industry (18)
- ❑ Cultural compatibility (7)
- ❑ Middle management skills (7).

Sourcing managers were prompted for a quantitative rating indicating the importance of each of a number of factors. Exhibit V-9 shows the relative importance of each of these potential capabilities in selecting a location for BPO services.

*Exhibit V-9*

**Importance of Location Selection Criteria**

Selection Criterion	Importance
Availability of legal protection	4.5
Quality of power & telecoms infrastructure	4.4
Political stability	4.3
Process transfer and take-on skills	4.0
Middle management skill levels	3.9
Process quality improvement techniques	3.9
Industry-specific process knowledge	3.8
Cultural compatibility of personnel	3.7

Infrastructure factors, including the availability of legal protection, power and telecoms, remain more important considerations than process-specific skills. These factors together with political stability are highly important to over 80% of sourcing managers. In addition, process transfer and take-on capability is highly important to over 80% sourcing managers.

The profile of importance of location selection criteria is broadly similar by country.

Exhibits V-10 to V-12 show by country, the importance of a number of capabilities in selecting a location for BPO services.

*Exhibit V-10*

**Importance of Location Selection Criteria: France**

Selection Criterion	Importance
Political stability	4.5
Availability of legal protection	4.5
Quality of power & telecoms infrastructure	4.4
Middle management skill levels	4.1
Process quality improvement techniques	3.9
Process transfer and take-on skills	3.9
Cultural compatibility of personnel	3.8
Industry-specific process knowledge	3.8

*Exhibit V-11*

**Importance of Location Selection Criteria: Germany**

Selection Criterion	Importance
Availability of legal protection	4.5
Quality of power & telecoms infrastructure	4.3
Political stability	4.1
Middle management skill levels	4.0
Process transfer and take-on skills	3.9
Process quality improvement techniques	3.8
Industry-specific process knowledge	3.8
Cultural compatibility of personnel	3.6

*Exhibit V-12*

**Importance of Location Selection Criteria: U.K.**

Selection Criterion	Importance
Availability of legal protection	4.5
Quality of power & telecoms infrastructure	4.3
Process transfer and take-on skills	4.1
Political stability	4.1
Process quality improvement techniques	4.0
Cultural compatibility of personnel	3.8
Industry-specific process knowledge	3.8
Middle management skill levels	3.7

Exhibit V-13 shows the perceived capability of personnel against each of a number of potential location selection criteria by country.

*Exhibit V-13*

**Perceived Personnel Capabilities by Delivery Location**

<b>Delivery Location</b>	<b>Cultural Compatibility</b>	<b>Middle management skills</b>	<b>Process quality improvement techniques</b>	<b>Process transfer &amp; take-on skills</b>	<b>Industry specific process knowledge</b>
India	3.1	4.0	3.7	4.0	3.7
China	2.9	3.9	3.4	3.7	3.7
Philippines	3.2	2.6	2.8	2.8	3.2
Malaysia	2.8	3.8	3.2	3.2	3.4
Asia Overall	3.0	3.8	3.3	3.5	3.5
Czech Republic	3.9	3.6	3.2	3.1	3.0
Poland	3.6	3.2	3.0	3.2	2.8
Hungary	3.6	3.4	3.1	3.3	2.9
Romania	3.6	3.2	2.9	2.7	2.8
Russia	3.8	3.1	2.8	2.7	2.9
Eastern Europe Overall	3.7	3.3	3.0	3.0	2.9
Brazil	3.5	2.6	3.2	3.1	2.7
Argentina	3.3	2.2	2.9	2.9	2.3
Mexico	3.3	2.6	3.2	3.2	2.7
Latin America Overall	3.3	2.4	3.1	3.1	2.6
South Africa	3.9	4.1	3.7	3.8	4.1
Tunisia	2.9	2.6	2.5	2.6	2.6
Ghana	2.5	2.1	2.0	2.1	2.3
Morocco	2.8	2.4	2.1	2.2	2.7
Africa Overall	3.1	2.6	2.4	2.5	2.9

South Africa, India and China score more highly than elsewhere against most of the key attributes, including process knowledge, take-on and quality improvement capability together with middle management skills.

However, South Africa, countries in Eastern Europe, and even countries in South America score more highly than countries in Asia in terms of cultural compatibility with Europe overall.



Attitudes towards Eastern European capabilities differ significantly by country with attitudes towards Eastern Europe much more favourable in Germany than in the U.K. and both France and Germany showing a much greater level of cultural compatibility with countries in Eastern Europe than do sourcing managers in the U.K., where the level of cultural compatibility is perceived to be similar across Asia and Eastern Europe.

Exhibits V-14 to V-16 show by country the perceived capability of personnel against each of a number of potential location selection criteria by country.

**Exhibit V-14**

**Perceived Personnel Capabilities by Delivery Location: France**

Delivery Location	Cultural Compatibility	Middle management skills	Process quality improvement techniques	Process transfer & take-on skills	Industry specific process knowledge
India	3.1	3.8	3.7	4.0	3.7
China	3.1	3.9	3.4	3.6	3.9
Philippines	3.1	2.5	2.8	2.7	3.4
Malaysia	2.9	3.7	3.3	3.3	3.4
Asia Overall	3.0	3.7	3.3	3.5	3.7
Czech Republic	4.1	3.7	3.2	3.0	3.2
Poland	3.6	3.2	3.2	3.2	2.9
Hungary	4.0	3.5	3.0	3.2	3.2
Romania	3.8	3.2	2.9	2.8	3.0
Russia	3.9	3.1	2.7	2.6	3.1
Eastern Europe Overall	3.9	3.3	3.0	3.0	3.2
Brazil	3.5	2.6	3.1	3.0	2.7
Argentina	3.4	2.3	2.9	2.9	2.3
Mexico	3.2	2.6	3.2	3.3	2.7
Latin America Overall	3.3	2.4	3.0	3.1	2.6
South Africa	3.6	3.7	3.0	3.3	4.0
Tunisia	3.3	3.0	3.1	2.9	3.3
Ghana	2.7	2.1	2.2	2.1	2.5
Morocco	3.2	2.6	2.4	2.4	3.2
Africa Overall	3.2	2.6	2.5	2.5	3.3

Exhibit V-15

## Perceived Personnel Capabilities by Delivery Location: Germany

Delivery Location	Cultural Compatibility	Middle management skills	Process quality improvement techniques	Process transfer & take-on skills	Industry specific process knowledge
India	2.8	3.9	3.7	4.0	3.7
China	2.7	3.9	3.3	3.7	3.5
Philippines	3.2	2.8	2.7	2.6	3.4
Malaysia	2.5	4.3	3.1	3.0	3.6
Asia Overall	2.8	3.9	3.2	3.4	3.5
Czech Republic	4.3	3.9	3.6	3.5	2.9
Poland	4.0	3.7	3.3	3.5	2.9
Hungary	3.8	3.7	3.5	3.6	3.0
Romania	4.0	3.7	3.1	2.8	2.7
Russia	4.0	3.6	3.2	3.0	2.8
Eastern Europe Overall	4.1	3.6	3.3	3.2	2.8
Brazil	3.2	2.4	3.6	3.4	2.8
Argentina	2.9	2.2	3.2	2.9	2.4
Mexico	3.0	2.6	3.4	3.5	2.7
Latin America Overall	2.9	2.2	3.4	3.2	2.6
South Africa	3.8	3.9	3.7	4.0	4.2
Tunisia	2.4	2.4	2.3	2.4	2.4
Ghana	2.5	2.0	2.0	2.2	2.3
Morocco	2.4	2.3	2.1	2.3	2.5
Africa Overall	2.8	2.5	2.3	2.5	2.7

Exhibit V-16

## Perceived Personnel Capabilities by Delivery Location: U.K.

Delivery Location	Cultural Compatibility	Middle management skills	Process quality improvement techniques	Process transfer & take-on skills	Industry specific process knowledge
India	3.3	4.1	3.8	4.0	3.6
China	3.0	3.8	3.4	3.7	3.7
Philippines	3.3	2.6	2.8	2.9	2.9
Malaysia	2.9	3.6	3.3	3.3	3.4
Asia Overall	3.2	3.7	3.4	3.5	3.4
Czech Republic	3.4	3.3	3.0	3.0	2.9
Poland	3.3	2.9	2.7	3.0	2.7
Hungary	3.2	3.1	2.9	3.1	2.7
Romania	3.2	2.9	2.7	2.6	2.8
Russia	3.4	2.7	2.5	2.5	2.9
Eastern Europe Overall	3.3	2.9	2.7	2.8	2.7
Brazil	3.8	2.7	3.1	3.1	2.7
Argentina	3.6	2.2	2.6	2.9	2.3
Mexico	3.6	2.5	2.9	3.1	2.7
Latin America Overall	3.7	2.4	2.9	3.0	2.5
South Africa	4.3	4.5	4.2	4.0	4.0
Tunisia	3.0	2.6	2.2	2.4	2.3
Ghana	2.3	2.1	1.9	1.9	2.2
Morocco	2.9	2.4	1.9	1.9	2.4
Africa Overall	3.2	2.7	2.3	2.4	2.6

The geographies used most recently for captive centres or BPO contracts and the reasons for choosing these locations are:

Onshore (14)

- To retain employees (7)
- To avoid loss of control (2)
- Customer facing activity
- To ensure service flexibility
- To avoid service disruption
- To avoid risk
- Poor image of offshoring

India (22)

- To maximize cost savings (4)
- Proven track record (3)
- Political stability (3)
- Quality of workforce (2)
- Service quality (2)
- Use of (existing) shared service centre (2)
- Existing contracts in place
- Indian government influence is appropriate
- Availability of skilled labour
- Instant service capability
- Good contact centre skills
- Possibility of Government interference in China

China (2)

- Good work ethic
- Good understanding of business.

The primary area where European sourcing managers perceived that vendors should expand their capability was Eastern Europe. The reasons given were:

- Lower risk location
- Better mix of language skills
- The area is improving in the development of the workforce
- Capability could exist quite quickly here.

## Chapter

## 6

## Industry Sector Analysis

Exhibits VI-1 to VI-2 show by industry, the breakdown of evaluations of the feasibility of utilizing captive centres and/or business process outsourcing completed by organizations over the past two years.

*Exhibit VI-1***Number of Evaluations Completed: Financial Services**

	Average
Total number of evaluations	4.4
Number of evaluations where BPO evaluated on its own	2.3
Number of evaluations where captive centres investigated on their own	0.6
Number of evaluations where both BPO and captive centres evaluated	1.5

*Exhibit VI-2***Number of Evaluations Completed: Manufacturing**

	Average
Total number of evaluations	2.8
Number of evaluations where BPO evaluated on its own	1.9
Number of evaluations where captive centres investigated on their own	0.2
Number of evaluations where both BPO and captive centres evaluated	0.7

The patterns are broadly similar across the two sectors though, as would be expected, there is a greater propensity to evaluate the option of use of captive centres within the financial services sector, where captives are considered in 48% of evaluations compared to within 32% of evaluations in the manufacturing sector.

Exhibits VI-3 to VI-4 show by industry the breakdown of evaluations by service type.

**Exhibit VI-3**

**Number of Evaluations by Service Type: Financial Services**

Service Type	Number	Proportion (%)
Contact centre and call centre services	1.7	39
HR services	0.4	9
Finance & accounting services	0.6	14
Indirect procurement services	0.2	5
Industry-specific services	1.5	34

**Exhibit VI-4**

**Number of Evaluations by Service Type: Manufacturing**

Service Type	Number	Proportion (%)
Contact centre and call centre services	0.3	10
HR services	1.1	38
Finance & accounting services	0.9	31
Indirect procurement services	0.4	14
Industry-specific services	0.2	7

As would be expected, sourcing evaluations are concentrated in contact centre and industry-specific services in the financial services sector and in HR and F&A services among organizations in the manufacturing sector.

Exhibits VI-5 to VI-6 show by industry, how many of the completed evaluations resulted in BPO contracts being awarded and how many resulted in captive centres being established.

*Exhibit VI-5*

**BPO Contracts Awarded: Financial Services**

	Number	Proportion (%)
Number of BPO contracts awarded	2.2	50
Number of captive centres established	0.8	18
Number of evaluations where neither occurred	1.4	32

*Exhibit VI-6*

**BPO Contracts Awarded: Manufacturing**

	Number	Proportion (%)
Number of BPO contracts awarded	1.9	68
Number of captive centres established	0.2	7
Number of evaluations where neither occurred	0.7	25

The financial services sector shows over double the propensity of the manufacturing sector to establish captive centres and captive centres are established in 38% of sourcing evaluations where they are considered in the financial services sector compared to 22% in the manufacturing sector. Conversely, BPO contract award rates are higher in the manufacturing sector (in 73% of evaluations where BPO is considered) than in the financial services sector (in 58% of evaluations where BPO is considered).

Exhibits VI-7 to VI-8 show by industry, the breakdown of evaluations which resulted in a BPO contract being awarded by service type.

*Exhibit VI-7*

**BPO Contracts Awarded by Service Type: Financial Services**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.8	36
HR outsourcing	0.2	9
Finance & accounting outsourcing	0.3	14
Indirect procurement outsourcing	0	0
Industry-specific services	0.9	41

*Exhibit VI-8*

**BPO Contracts Awarded by Service Type: Manufacturing**

Service Type	Number	Proportion (%)
Contact centre and call centre outsourcing	0.2	11
HR outsourcing	0.8	44
Finance & accounting outsourcing	0.6	33
Indirect procurement outsourcing	0.1	6
Industry-specific services	0.1	6

BPO adoption is relatively low for indirect procurement outsourcing across both sectors.



Exhibits VI-9 to VI-10 show by industry, the breakdown of evaluations which resulted in a captive centre being established by service type.

**Exhibit VI-9**

**Captive Centres Established by Service Type: Financial Services**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.3	44
HR offshoring	0	0
Finance & accounting offshoring	0.1	11
Indirect procurement offshoring	0	0
Industry-specific offshoring	0.4	44

**Exhibit VI-10**

**Captive Centres Established by Service Type: Manufacturing**

Service Type	Number	Proportion (%)
Contact centre and call centre offshoring	0.1	100
HR offshoring	0	0
Finance & accounting offshoring	0	0
Indirect procurement offshoring	0	0
Industry-specific offshoring	0	0

Exhibits VI-11 to VI-12 show by industry, the significance of each of a number of potential factors for BPO rejection.

*Exhibit VI-11*

**Potential Factors for BPO Rejection: Financial Services**

Rejection Factor	Significance
Lack of process operations knowledge within vendor	3.9
Compliance concerns	3.8
Perception of greater contract & legal risk	3.8
Unproven service delivery quality	3.8
Lack of vendor service maturity	3.6
Lack of client company knowledge within vendor	3.5
Lack of suitable offshore service delivery capability	3.4
Inappropriate service locations or location mix	3.2
Unproven cost reduction capability	3.1
Lack of demonstrable success stories	3.0

*Exhibit VI-12*

**Potential Factors for BPO Rejection: Manufacturing**

Rejection Factor	Significance
Perception of greater contract & legal risk	4.2
Lack of process operations knowledge within vendor	3.6
Lack of demonstrable success stories	3.3
Inappropriate service locations or location mix	3.2
Lack of client company knowledge within vendor	3.2
Lack of suitable offshore service delivery capability	3.1
Lack of vendor service maturity	3.1
Unproven cost reduction capability	3.1
Unproven service delivery quality	3.1
Compliance concerns	2.8

Lack of process operations knowledge within the vendor and a perception of greater contract and legal risk are major factors behind BPO rejection in both the financial services and manufacturing sectors.

In addition financial services companies have much higher levels of concern regarding compliance issues than manufacturing companies, and also express greater concerns regarding lack of vendor service maturity and unproven service delivery quality.

This partially reflects the reliance of the financial services sector on offshoring key industry-specific delivery silos while the emphasis of the manufacturing sector is primarily on offshoring support functions.

Exhibits VI-13 to VI-14 show by industry, the average number of evaluations of outsourcing of application development and support functions carried out over the past two years, and on how many occasions an application development outsourcing and support contract was awarded.

**Exhibit VI-13**

**Outsourcing of Application Development and Support Functions:  
Financial Services**

	Number
Number of application development and support outsourcing evaluations	5.6
Number of application development and support outsourcing contracts awarded	4.4

**Exhibit VI-14**

**Outsourcing of Application Development and Support Functions:  
Manufacturing**

	Number
Number of application development and support outsourcing evaluations	2.9
Number of application development and support outsourcing contracts awarded	2.3

Exhibits VI-15 to VI-16 show by industry, how the patterns of usage of BPO and captive centres are predicted to change over the next two years.

**Exhibit VI-15**

**Patterns of Usage Predictions: Financial Services**

	<b>Increase (%)</b>	<b>Stay Same (%)</b>	<b>Decrease (%)</b>
BPO contract awards on evaluation	40	48	12
Ratio of captive centres to award of BPO contracts	20	58	22
Offshore component within BPO service delivery	6	54	40

**Exhibit VI-16**

**Patterns of Usage Predictions: Manufacturing**

	<b>Increase (%)</b>	<b>Stay Same (%)</b>	<b>Decrease (%)</b>
BPO contract awards on evaluation	34	58	6
Ratio of captive centres to award of BPO contracts	6	70	22
Offshore component within BPO service delivery	36	56	8

Sourcing managers in both the financial services and manufacturing sectors expect an increase in the level of BPO contract awards arising from sourcing evaluations. However, sourcing managers in the financial services sector, unlike their counterparts in the manufacturing sector, expect a decrease in the proportion of offshore delivery within future BPO contract awards.

Exhibit V-17 shows the profile of relevance of legal protection when organizations are considering going offshore by country.

**Exhibit VI-17**

**Importance of Availability of Legal Protection**

<b>Relevance</b>	<b>Overall (%)</b>	<b>Financial Services (%)</b>	<b>Manufacturing (%)</b>
Low	1	0	2
Medium	11	2	20
High	88	98	78

The availability of legal protection is highly important to sourcing managers in both the financial services and manufacturing sectors, but of special importance to sourcing managers in the financial services sector.

Exhibits VI-18 to VI-19 show by industry, the perceived relevance of each of a number of potential legal issues when offshoring.

**Exhibit VI-18**

**Relevance of Legal Issues: Financial Services**

Legal Issue	Relevance
A data protection system that allows cross-border data transfers	4.7
Being able to enforce my contract against the offshore provider	4.6
Protection of Intellectual Property Rights	4.6
Technology transfer laws	4.1
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.6

**Exhibit VI-19**

**Relevance of Legal Issues: Manufacturing**

Legal Issue	Relevance
Being able to enforce my contract against the offshore provider	4.5
Protection of Intellectual Property Rights	4.5
A data protection system that allows cross-border data transfers	4.4
Technology transfer laws	4.1
Laws equivalent to the U.K.'s "TUPE" rules for the transfer of employees	3.5

Exhibits VI-20 to VI-21 show by industry, the overall perceptions of the quality of BPO delivery capability within each of a number of geographies.

**Exhibit VI-20**

**Quality Perceptions: Financial Services**

Delivery Location	Quality
India	3.6
China	3.5
Philippines	3.2
Malaysia	3.7
Asia Overall	3.5
Czech Republic	2.9
Poland	3.0
Hungary	3.0
Romania	2.9
Russia	3.1
Eastern Europe Overall	3.0
Brazil	3.2
Argentina	3.1
Mexico	3.2
Latin America Overall	3.2
South Africa	3.3
Tunisia	2.6
Ghana	2.3
Morocco	2.4
Africa Overall	2.5

*Exhibit VI-21***Quality Perceptions: Manufacturing**

<b>Delivery Location</b>	<b>Quality</b>
India	3.9
China	3.8
Philippines	3.5
Malaysia	3.8
Asia Overall	3.7
Czech Republic	3.6
Poland	3.5
Hungary	3.4
Romania	3.4
Russia	3.6
Eastern Europe Overall	3.5
Brazil	3.2
Argentina	3.1
Mexico	3.2
Latin America Overall	3.1
South Africa	3.5
Tunisia	2.7
Ghana	2.6
Morocco	2.6
Africa Overall	3.1

Sourcing managers in the manufacturing sector have a stronger perception of high service delivery quality in Eastern Europe than their counterparts in the financial services sector.

Exhibits VI-22 to VI-23 show by industry, how sourcing managers would allocate 100 personnel across geographies for each of a number of BPO categories.

*Exhibit VI-22*

**BPO Personnel Allocation: Financial Services**

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	51	54	52	69	51	56	54
China	21	19	16	10	15	17	20
Philippines	0	0	0	0	0	0	1
Malaysia	2	2	1	0	1	4	4
Asia Overall	74	75	69	81	68	77	78
Czech Republic	3	4	5	4	3	3	3
Poland	4	4	5	3	5	3	3
Hungary	1	1	1	2	2	1	0
Romania	5	5	5	4	4	3	6
Russia	2	2	2	1	2	1	1
Eastern Europe Overall	15	16	18	14	16	11	12
Brazil	4	4	5	3	8	4	4
Argentina	1	1	1	1	1	0	1
Mexico	3	3	5	2	5	2	1
Latin America Overall	8	7	11	6	13	6	6
South Africa	4	2	3	1	3	6	5
Tunisia	0	0	0	0	0	0	0
Ghana	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0
Africa Overall	4	2	3	1	3	6	5



Exhibit VI-23

## BPO Personnel Allocation: Manufacturing

Delivery Location	BPO	Finance & Accounting	HR	Contact Centre	Process Specific	Analytics & Expert	Support
India	55	55	54	68	57	57	54
China	23	21	19	11	15	20	19
Philippines	0	0	0	0	0	0	0
Malaysia	2	2	1	1	0	5	3
Asia Overall	80	78	74	80	74	83	76
Czech Republic	3	4	3	3	5	3	3
Poland	3	3	3	2	2	3	2
Hungary	1	1	1	1	1	1	0
Romania	3	2	3	1	2	2	3
Russia	1	0	1	0	1	1	0
Eastern Europe Overall	10	9	12	7	10	8	8
Brazil	3	4	5	2	5	2	5
Argentina	1	1	1	1	1	1	1
Mexico	4	6	5	4	5	2	3
Latin America Overall	8	11	11	7	11	5	9
South Africa	2	2	3	6	4	4	7
Tunisia	0	0	1	0	0	0	0
Ghana	0	0	0	0	0	0	0
Morocco	0	0	0	0	0	0	0
Africa Overall	2	2	4	6	4	4	7

Exhibits VI-24 to VI-25 show by industry, the importance of a number of capabilities in selecting a location for BPO services.

**Exhibit VI-24**

**Importance of Location Selection Criteria: Financial Services**

Location selection criterion	Importance
Political stability	4.5
Availability of legal protection	4.4
Quality of power & telecoms infrastructure	4.3
Process transfer and take-on skills	4.0
Middle management skill levels	3.9
Process quality improvement techniques	3.7
Cultural compatibility of personnel	3.6
Industry-specific process knowledge	3.6

**Exhibit VI-25**

**Importance of Location Selection Criteria: Manufacturing**

Location selection criterion	Importance
Availability of legal protection	4.4
Political stability	4.4
Quality of power & telecoms infrastructure	4.4
Process quality improvement techniques	4.1
Middle management skill levels	4.0
Process transfer and take-on skills	4.0
Industry-specific process knowledge	3.9
Cultural compatibility of personnel	3.6

The importance of each of these criteria is broadly similar across the two sectors.

Exhibits VI-26 to VI-27 show by industry the perceived capability of personnel against each of a number of potential location selection criteria by country.

*Exhibit VI-26*

**Perceived Personnel Capabilities by Delivery Location: Financial Services**

<b>Delivery Location</b>	<b>Cultural Compatibility</b>	<b>Middle management skills</b>	<b>Process quality improvement techniques</b>	<b>Process transfer &amp; take-on skills</b>	<b>Industry specific process knowledge</b>
India	3.1	3.9	3.5	3.8	4.2
China	2.9	3.9	3.2	3.6	3.6
Philippines	3.2	2.7	2.7	2.8	3.3
Malaysia	2.9	3.9	3.1	3.2	3.9
Asia Overall	3.0	3.8	3.1	3.3	3.7
Czech Republic	3.9	3.6	3.0	2.9	3.1
Poland	3.6	3.1	2.8	2.9	2.7
Hungary	3.6	3.4	2.9	3.1	2.9
Romania	3.6	3.1	2.6	2.5	2.9
Russia	3.8	3.0	2.6	2.6	2.4
Eastern Europe Overall	3.7	3.2	2.7	2.7	2.8
Brazil	3.5	2.6	2.9	2.9	2.6
Argentina	3.3	2.3	2.6	2.7	2.2
Mexico	3.3	2.5	2.9	3.0	2.6
Latin America Overall	3.3	2.5	2.8	2.8	2.4
South Africa	4.1	4.0	3.6	3.8	4.2
Tunisia	2.8	2.7	2.4	2.3	2.6
Ghana	2.5	2.1	1.9	2.0	2.2
Morocco	2.7	2.4	2.0	2.0	2.5
Africa Overall	3.0	2.6	2.3	2.4	2.9

Exhibit VI-27

**Perceived Personnel Capabilities by Delivery Location:  
Manufacturing**

<b>Delivery Location</b>	<b>Cultural Compatibility</b>	<b>Middle management skills</b>	<b>Process quality improvement techniques</b>	<b>Process transfer &amp; take-on skills</b>	<b>Industry specific process knowledge</b>
India	3.1	4.0	3.9	4.2	3.2
China	2.9	3.9	3.5	3.8	3.9
Philippines	3.2	2.5	2.9	2.7	3.2
Malaysia	2.7	3.7	3.3	3.3	2.9
Asia Overall	3.0	3.7	3.4	3.6	3.4
Czech Republic	3.9	3.6	3.4	3.4	2.8
Poland	3.6	3.3	3.3	3.5	2.9
Hungary	3.6	3.4	3.3	3.5	3.0
Romania	3.6	3.4	3.2	2.9	2.8
Russia	3.7	3.2	2.9	2.8	3.4
Eastern Europe Overall	3.7	3.3	3.2	3.2	3.0
Brazil	3.6	2.6	3.5	3.4	2.9
Argentina	3.4	2.2	3.2	3.1	2.4
Mexico	3.3	2.6	3.4	3.5	2.8
Latin America Overall	3.4	2.3	3.4	3.4	2.7
South Africa	3.8	4.1	3.7	3.8	3.9
Tunisia	2.9	2.6	2.6	2.8	2.7
Ghana	2.5	2.1	2.1	2.2	2.4
Morocco	2.9	2.5	2.3	2.3	2.8
Africa Overall	3.1	2.7	2.4	2.6	2.8