BPAAS: THE SHIFT TOWARDS NEXT-GEN BUSINESS SERVICES

Abstract

Business Process as a Service (BPaaS) is a next generation business services model using a digital- and platform-first approach. This paper discusses the evolution of the model and its benefits, also outlining a potential operating model from a practitioner's standpoint.

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In the face of fast-evolving market dynamics, leaders across industries are seeking innovative ways to create value and competitive agility for their businesses. In this context, corporate business services can play a key role in enabling growth through simultaneously optimizing cost structures and improving customer experience. This requires domain-led process transformation and amplified employee capabilities, a journey which often lends itself to a digital- and platform-first approach.

Business Process as a Service (BPaaS) is a next generation business services model that caters to precisely this need, through serving businesses with an easy to consume service model.

From BPO to BPaaS

The genesis of business process outsourcing (BPO) was a call center delivering voice-based back office services to clients seeking cost arbitrage benefits. During these early days, the partnership between clients and service providers was very tactical. As BPO providers matured however, they began taking on data-based and end-to-end processes, deploying customized engagement and commercial models, and providing value-add in terms of productivity savings through process- and domain-led innovation.

Today, productivity value-add has become mainstream and is the key component of innovative, outcome-based commercial models that range from managed services to center takeover to build-operate-transfer. The industry is now commonly referred to as Business Process Services (BPS) or Business Process Management (BPM). However, BPM models have some limitations. They are not flexible and scalable enough for the dynamic nature of businesses in today's volatile, uncertain, complex, and ambiguous (VUCA) world. Moreover, they cannot cater to small enterprises given that they require capital-intensive technology infrastructure. This is not so for the BPaaS model however, which delivers BPS services hosted in cloud infrastructure. The client only needs to connect itself to the provider's cloud platform to enable service delivery and pays only for the consumption of subscribed business process services.

Through BPaaS, providers can serve multiple companies, business lines, or geographies within an individual group company as part of multi-tenancy set-up. Figure 1 below summarizes the evolution of BPO.
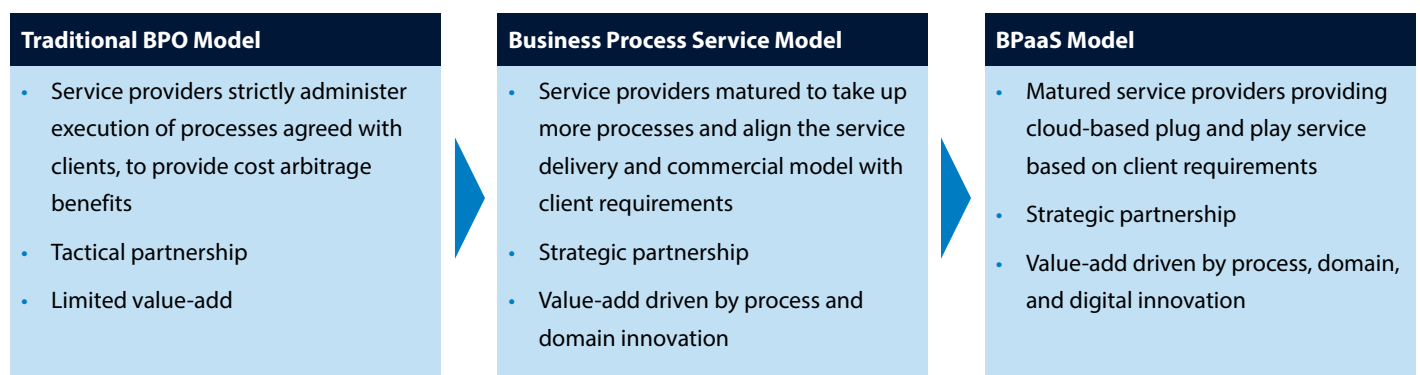
Traditional BPO Model	Business Process Service Model	BPaaS Model
• Service providers strictly administer execution of processes agreed with clients, to provide cost arbitrage benefits • Tactical partnership • Limited value-add	• Service providers matured to take up more processes and align the service delivery and commercial model with client requirements • Strategic partnership • Value-add driven by process and domain innovation	• Matured service providers providing cloud-based plug and play service based on client requirements • Strategic partnership • Value-add driven by process, domain, and digital innovation

Figure 1

Apart from the obvious benefits of cost, a BPaaS model provides other benefits that are summarized in figure 2 below.

	Traditional BPO	BPaaS Model
Buyer Size	Typically suited to large enterprises to ensure sizeable benefits through cost arbitrage	Can serve enterprises of all sizes
Scalability	Scaling services based on business services is more time consuming and difficult	Scaling services based on business requirements is less time consuming and difficult (i.e. expanding services to new business lines, geographies, etc.)
Flexibility	Configuration of customized process design is more time consuming and difficult	Relatively quick and easier configuration of process design as per business requirements
Data Control	Relatively high risk of information control for buyers	Cloud makes it relatively easier for buyers to monitor and enforce data controls

Figure 2

A model whose time has come

There are three factors that make BPaaS an attractive proposition today. Firstly, regardless of the core business, enterprise business processes are homogenous in nature. Secondly, the benefits of a BPaaS model potentially offset — to a certain extent — the cost of the needed capex investments for a transformation journey. The last and key factor is the emergence of mature service providers, who are already operating and delivering BPaaS models through successfully leveraging cloud technology. These factors reflect in a MarketsandMarkets report which forecasts that the BPaaS market will grow from USD 36.88 billion in 2016 to USD 68.76 billion by 2022, at a CAGR of 11.3% during the forecast period.

Scalable, yet flexible

Simply put, the BPaaS model is about entrusting the service delivery of certain business processes to a service provider's cloud-based ecosystem of solutions. Figure 3 below shows the stack of solutions that make up BPaaS, with buyers having the choice of unbundling and getting service from the provider on all or only some elements of the stack.
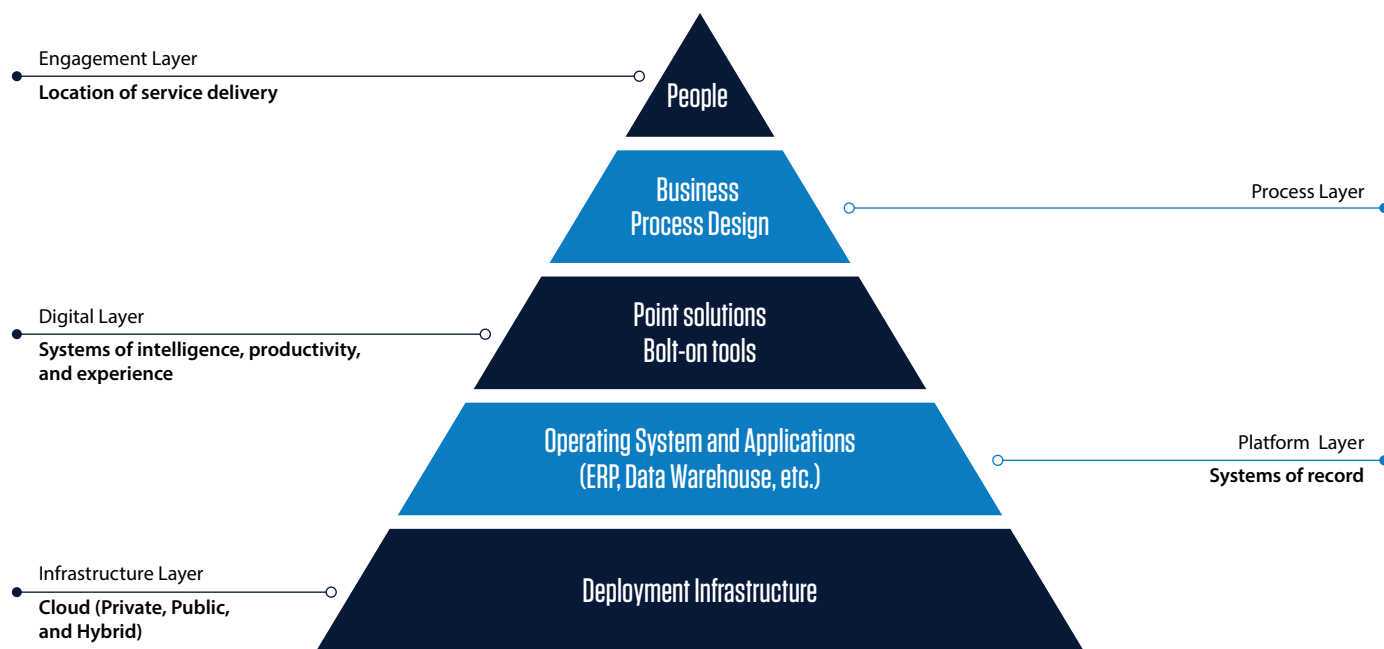

Engagement Layer
Location of service delivery

People

Business Process Design

Process Layer

Point solutions Bolt-on tools

Digital Layer
Systems of intelligence, productivity, and experience

Operating System and Applications (ERP, Data Warehouse, etc.)

Platform Layer
Systems of record

Infrastructure Layer
Cloud (Private, Public, and Hybrid)

Deployment Infrastructure

Figure 3

[1] https://www.marketsandmarkets.com/Market-Reports/business-process-as-a-service-bpaas-market-986.html

The model enables the servicing of entire processes or only specific parts of processes, depending on the client's requirement and the maturity of the provider's solutions and capabilities. Thus, buyers gain the people, processes, and technology they need, as well as the flexibility to pay only for what they use or have subscribed for. This enables a shift from a Capex to an Opex cost structure for process delivery.

Ideally, processes that are not core to business, are low-risk but of high volume, and do not directly impact end-customers are fit to be delivered as part of a BPaaS model. By virtue of this, enterprise processes such as finance & accounting, procurement, HR, and so on have traditionally been delivered at scale with remarkable success through this model. However, the case for delivering industry vertical specific processes is

gaining strength with a critical mass of success stories, as providers with maturing capabilities continue to excel at service delivery and innovation. Figure 4 below illustrates different As-a-service models, with BPaaS sitting on top of the three foundational models.
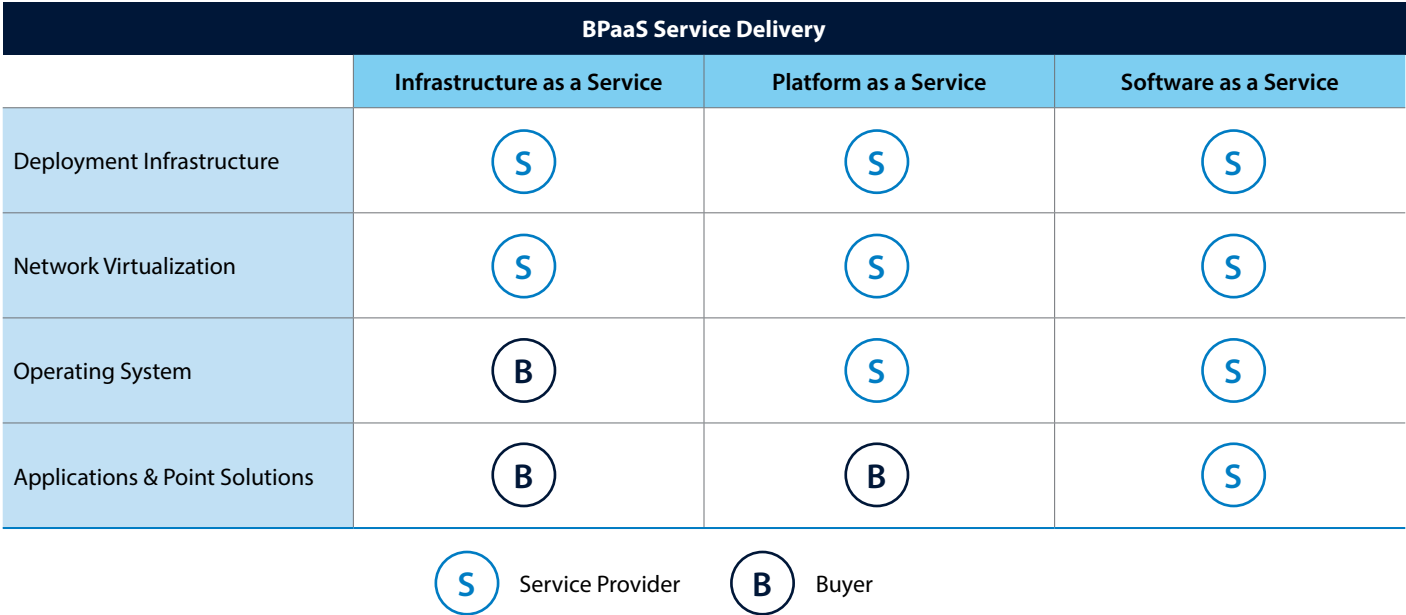
BPaaS Service Delivery			
	Infrastructure as a Service	Platform as a Service	Software as a Service
Deployment Infrastructure	S	S	S
Network Virtualization	S	S	S
Operating System	B	S	S
Applications & Point Solutions	B	B	S

S Service Provider   B Buyer

Figure 4

A potential operating model construct

Let us imagine together a potential BPaaS construct and its implications on efficiency, effectiveness, and experience. Figure 5 below illustrates one such operating model.
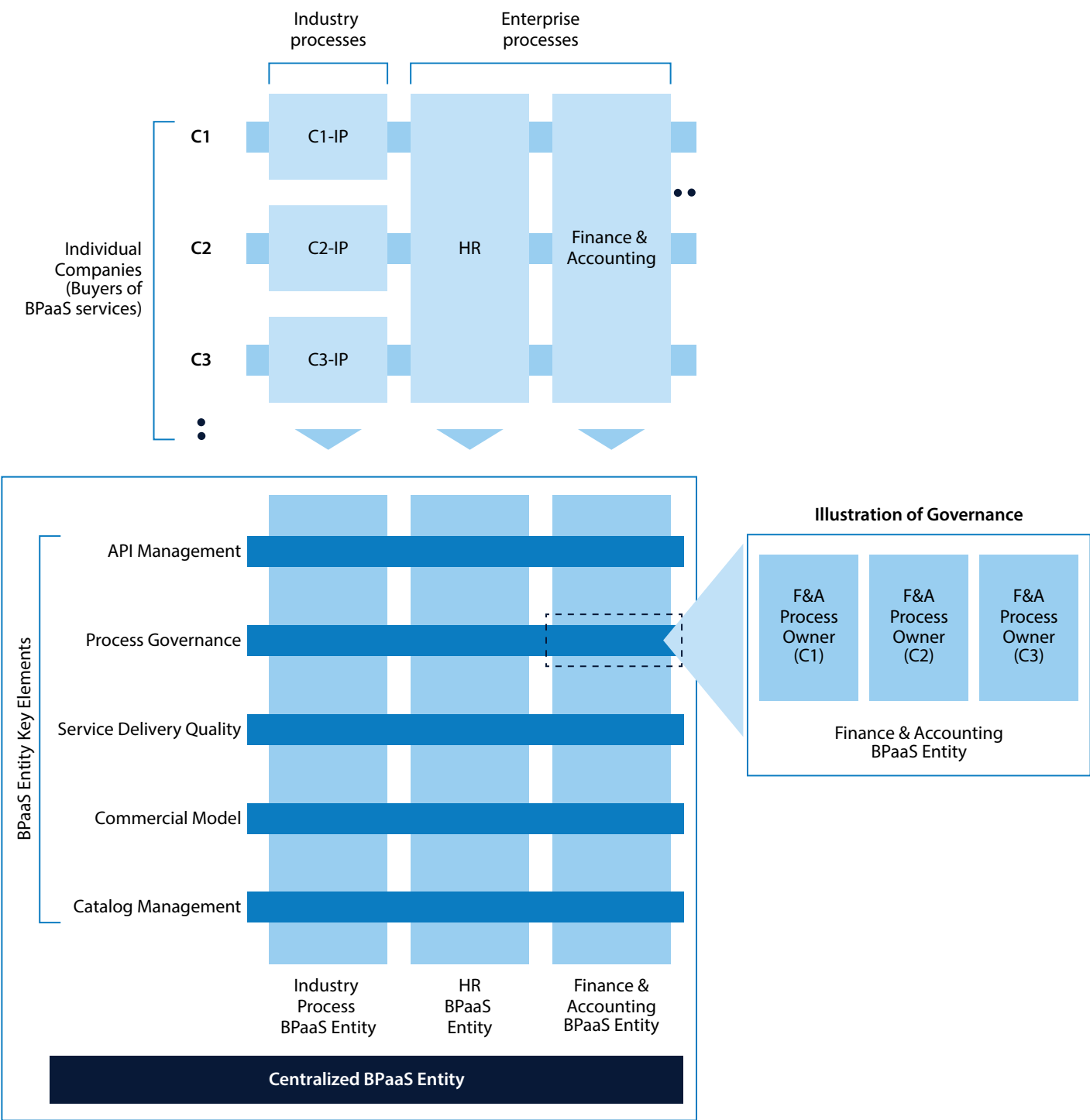

Figure 5

The BPaaS entity could serve the 'enterprise' and 'industry-specific' processes of the 'buyer' company. The decision as to which processes would form part of the entity's service catalogue would depend on the maturity of its process delivery capability and the monetization potential and fungibility of its platform.

The centralized BPaaS entity would have five key elements:

1. **API Management:** This function would ensure end-to-end management of cloud infrastructure and seamless integration of the BPaaS cloud platform with the respective buyers using APIs according to business and IT requirements.

2. **Process Governance:** To drive effective process governance and accelerated transformation, we propose having a representation of the business process owners from the respective buyers within the BPaaS as shown in figure 5. Ideally, the process owner role should be sourced from the buyer but would be placed within the BPaaS utility, acting as an effective conduit between the buyer and the BPaaS utility.

3. **Service Delivery Quality:** To ensure objective and diligent monitoring of service delivery quality, it is important to define the right metrics at multiple levels and establish clear linkages between the operational / process metrics and the impacted business metrics. A metrics-driven culture of quality management helps in baselining while defining the transformation target and roadmap. Figure 6 below provides an illustration of metrics hierarchy.
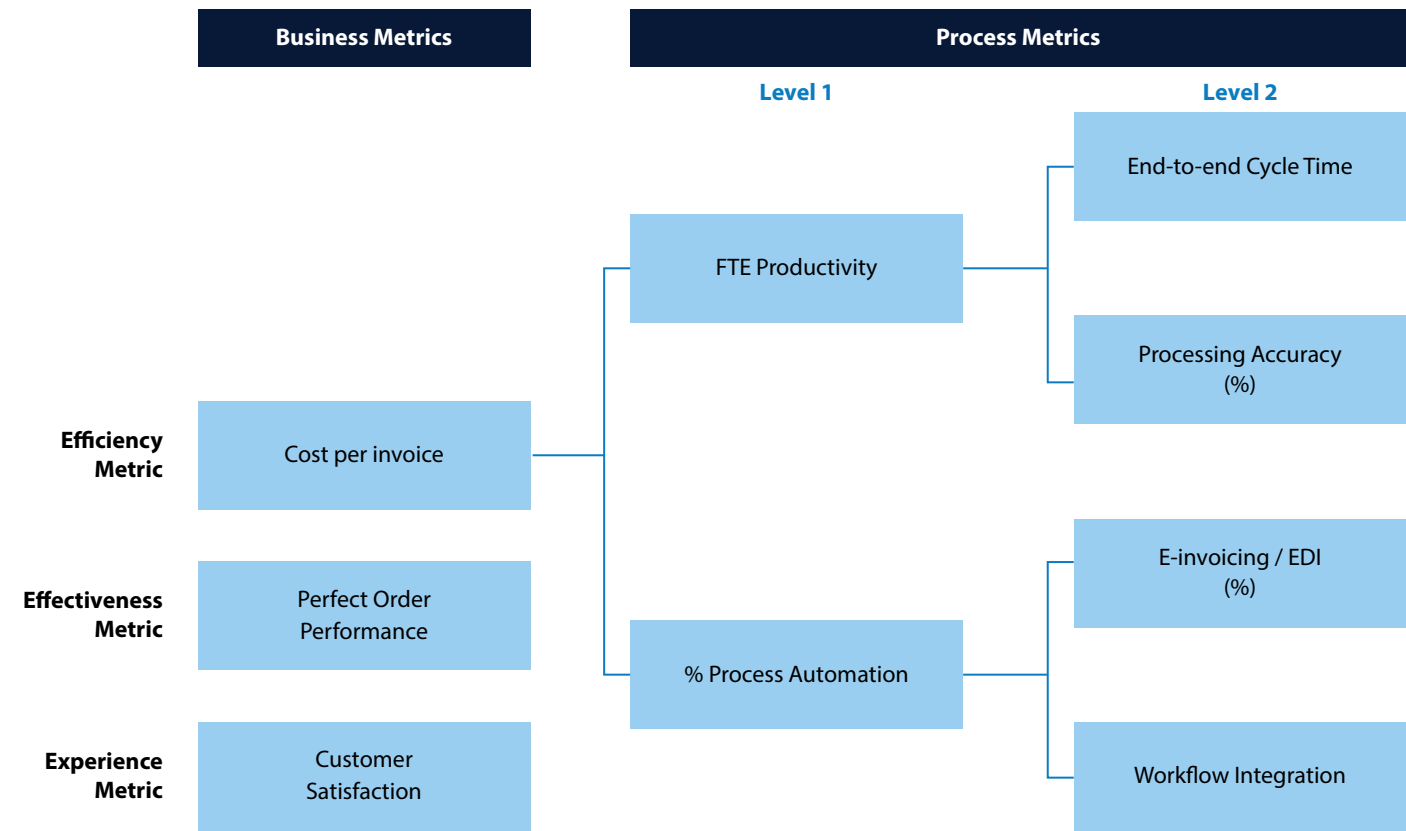
Business Metrics	Process Metrics	
	Level 1	Level 2

Efficiency Metric — Cost per invoice

Effectiveness Metric — Perfect Order Performance

Experience Metric — Customer Satisfaction

FTE Productivity → End-to-end Cycle Time; Processing Accuracy (%)

% Process Automation → E-invoicing / EDI (%); Workflow Integration

Illustration of the derivation of downstream metrics from an efficiency business metric

Figure 6

4. **Commercial Model:** The choice of commercial model would chiefly depend on the underlying cost structure of a company (fixed, variable), the state of the respective industry (regulated versus unregulated), and the transactional/ non-transactional nature of the processes involved, among other factors. While an outcome-based BPaaS model could suit unregulated capex intensive firms, regulated companies assured of return on investments based on regulator-approved pricing structures would prefer a fixed priced or transaction based BPaaS model.

5. **Catalogue Management:** A critical outcome for a BPaaS Entity is to drive sustainable cost optimization and transformation for its buyer organization. In this regard, increasing the penetration of existing services within the buyer organization (new service lines / departments / geographies) and adding new services to its catalogue of services needs to happen effectively. A marketplace portal with a catalogue of services, pricing models, standard packages, savings estimator tools, guided adoption journeys, and so on could be an extremely useful tool to drive BPaaS adoption.

The way forward

COVID-19 has catalyzed the adoption of cloud and other digital technologies such as business process automation and analytics. In fact, according to Gartner[2] , cloud spending is estimated to rise 19% for the full year, even while IT spending as a whole is forecast to fall 8%. The hitherto organizational inertia and concerns about these technologies is now giving way to a palpable openness to adoption and in some cases even a sense of urgency, driven by the need for business resilience, cost optimization, and customer experience transformation. What this means for BPaaS is that in relative terms, the growth in adoption is largely expected to be in the areas of finance & accounting, insurance, banking & financial services, supply chain, and healthcare[3].

In the end, regardless of whether an organization has an existing shared service center or not, the journey towards moving to a BPaaS model would have some common steps. It would necessarily start with an assessment of the processes in scope to help ascertain the potential for standardization, centralization, and technology play to drive transformation. The end state would be a mature strategic asset that is able to provide plug-and-play services at scale and agility to different organizations.

[2] https://www.pwc.com/us/en/industries/tmt/library/covid19-cloud-infrastructure.html

[3] https://www.everestgrp.com/2019-12-future-business-process-as-a-service-growth-by-segment-market-insights-52114.html

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