Thought Paper

Why Business Process Outsourcing will grow in Europe

BPO Market has grown significantly, but Continental Europe is a slow adopter

Michel de Zeeuw

Abstract

Overall the Business Process Outsourcing market has grown significantly over the past 5 years with average annual growth rates of above 25% for Finance Outsourcing (1) for example. However this growth is primarily driven by large North American and British firms.

Large US based corporations have led the charge to BPO, driven by the potential cost savings offered in off-shore locations. They have moved significant portions of their Business Processes to India initially and then also to the Philippines, China or Eastern Europe. Quite a number of these companies started their own off-shore shared services organization in these countries and later outsourced it.

The European BPO market started to move in the UK. However companies in Continental Europe are slower in adopting. Social and regulatory constraints, cultural fit, ability to manage different cultures, language capabilities are the reasons often put forward to explain this.

I believe that Continental Europe is now the next large growth market. Royal Philips has set the tone last year by signing a 7 years outsourcing agreement with Infosys BPO to provide Finance & Accounting and Procurement services to more than 400 Philips organizations across the globe.

BPO Providers have become mature

Thanks to the first movers in North America and Europe over the past 5 years, the key BPO providers have now reached a scale and maturity level that enables them to fulfill more promises of outsourcing and enhance their value proposition. They are increasingly positioned to support their customers in improving their competitiveness through transformation and automation of their business processes.

Scale enables investments for quality and technology that most captives cannot afford making. Infosys BPO for example has training capacity for up to 10,000 students a day, in all sorts of training courses that support its outsourcing business in IT and BPO. Quality processes, recruitment are another example of significant investments that require scale.

The breadth of the service offering is now wide and expanding from traditional transactional work to higher value added services including Procurement and Knowledge Services. Specific business models can now address the language requirements that are so dear to Continental European hearts.

As labor arbitrage may not last forever BPO providers have to find new ways of adding value for their customers. The top players including Infosys are investing heavily in new talents, technologies and partnerships to become true transformation partners for their customers.

It is time for Europe to grow

Competing in the global economy and having to deal with a strong Euro, European firms need to be more scalable and more competitive. Cost reduction and organizational agility are essential for all European based companies willing to compete on the global market. In addition the availability of skilled resources is increasingly becoming an issue in Europe in many areas including Accounting.

Outsourcing is an answer for Business Processes that are not core to the company's value proposition.

In particular, the market of small and mid-size businesses is due to grow very fast. Some large players with revenues of 30 Billion Euros and above have created themselves captive centers off-shore. They could do this because they have some scale, expertise and presence off-shore to avoid outsourcing. We have however seen a lot of these "captive" organizations moving to outsourcing after a few years, as they faced investment issues and could not offer a long term value proposition for their offshore staff.

Smaller international companies do not have the option to start as a captive and will have to outsource to continue to reduce their costs and increase scalability to better seize global growth opportunities.

About the Authors

Michel de Zeeuw
Vice President, Executive Client Partner
Member of Infosys BPO Executive Committee

Michel has over 1 years' experience in setting up and running Shared Services at European and Global levels. Prior to his position at Infosys BPO, Michel was Senior Vice President at Royal Philips in charge of Global Finance Shared Services from February 2003 to September 2007. In this position he implemented a global captive organization of more than 2000 FTEs, generating 25% of savings for Philips and reaching world-class cost status. He led the project to sell and outsource the 3 Philips service centers to Infosys BPO. Prior to Philips Michel has set up Shared Services for Unisys in Europe from 1994 to 1999. He has also led a global project to re-engineer Finance processes and set-up Shared Services at MacDonald's Corporation. He was the Co-Chair of the European Shared Services Council of the conference board from 2004 to 2007. From 1978 to 1994 he has held numerous and various Finance positions in different countries for Unisys, including Financial Analysis, Chief Accountant, Business Controller, and country CFO. He holds a Master in Business Administration from Paris IX Dauphine University.

(1) Source Everest Research Institute

Infosys ® | Building
Tomorrow's Enterprise

For more information, contact infosysbpo@infosys.com

About Infosys BPO

Global organizations depend on Infosys BPO Ltd, the business process outsourcing subsidiary of Infosys Ltd (NASDAQ: INFY) to deliver measurable business value. Infosys BPO's strong focus on industry solutions, technology and a consulting based approach has created new engagement models to help clients build tomorrow's enterprise.

For more information about Infosys (NASDAQ:INFY), visit www.infosysbpo.com.