



Business Process Utilities: The Next Generation of Sourcing

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Title

Business Process Utilities: The Next Generation of Sourcing

Summary

The world has never been as flat. Barriers to entry into the outsourcing market are getting lower. Providers can leverage cheaper IT provided by new cloud computing architectures. Regulations, standards and co-competition are driving process maturation. The opening of global markets is allowing firms to access skilled labor and cheaper resources on an unprecedented basis. Meanwhile, traditional IT and BPO offerings are standardizing, benchmarking is common place and price is becoming the greatest factor in outsourcing selection.

Saugatuck's research indicates that outsourcing providers need to change their business models to drive differentiation and embark on the next generation of sourcing. *Business Process Utilities* (BPUs) may very well be the vehicle upon which outsourcing providers drive the regeneration of their outsourcing portfolios. BPUs are "service platforms that provide relatively standardized business processes, delivered from a one-to-many architecture and have many customers subscribing to these services". BPUs leverage shared platforms (both home grown and third party) to offer next-generation BPO services and solutions.

In this *Strategic Perspective*, we define what the characteristics of a BPU are and explain the drivers behind their emergence, and how service providers will give rise to BPU use.

So What?

BPO providers that are not investigating and pursuing new Cloud-based differentiation will lose significant opportunity and revenue.

Customers are seeking better and more cost-effective alternatives to traditional IT that leverage not just inexpensive compute resources, but centralized services. Buyers should be looking to providers that enable and deliver significant improvements in cost and performance.

This rise in BPUs will transform not only the outsourcing market, but will lead to the next evolution of business process accountability, driving the responsibility for both IT and business process innovation to a set of BPU providers.

Perspective

In June 2010, Saugatuck conducted a series of deep-dive interviews with more than two dozen providers of outsourcing services and leading SaaS providers to understand their take on how cloud computing will impact outsourcing offerings and markets.

What we found is that cloud computing is mostly being adopted in a tactical manner to enable better, faster and cheaper IT – what Saugatuck calls Cloud-enabled BPO. However, we are also beginning to see the beginning of a trend for using the cloud as a platform for *radical* offering innovation.

This *Strategic Perspective* outlines how cloud computing will facilitate new opportunities for Business Process Outsourcing innovation. Key to innovation will be the development and deployment of Business Process

The author invites your comments and inquires on this *Strategic Perspective*.

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Utilities.

BPU's are comprised of end-to-end delivery of complete business functions including the people, equipment, supporting infrastructure and facilities required for operating business processes and business applications. Instead of taking over the function and transforming it according to a customized agreement with the client, the provider delivers the same standardized process to multiple clients, using its own or a partner's technology and best practices. Table 1 outlines the five key characteristics of a BPU.

Table 1. Business Process Utility Characteristics

Characteristic	Description
Relatively standardized requirements	External firm provides standardized process to multiple clients in an industry. Clients give up customization in favor of a standard set of processes that can be configured to a client.
Variable Pay-as-you-Go pricing	BPU pricing is based on a variable cost subscription model. This allows for cost savings, as clients only pay based on the services they consume.
Non-differentiated or core business processes	BPU's deliver critical but non-differentiating business functions to multiple participants in an industry. Non-differentiated, back-office processes such as payroll or HR management are examples.
Propensity to outsource	Functions that are good candidates for BPU's are those that are already frequently outsourced, as that is a good indication that the function is not "core", yet may be "critical" to an organization.
Industry in transformational stage	Industries that are in a period of major transformation where they are trying to cut costs and standardize certain processes are targets. BPU's are generally operated by a service provider deeply knowledgeable in the participants' industry and can help lead this change through unique IP and consulting skills.

Source: Saugatuck Technology

The Emergence of Business Process Utilities

Early examples of BPU's include functions that have been shared between competitors for years, such as cell towers among wireless carriers or check exchanging between banks; back-office transaction-intensive operations in Finance, Insurance and Telecom; Billing, network operations, and customer care in the Telecom industry; and item transaction processing in Banking and claims processing in Insurance.

Our research indicates that we will see a renewed interest in and then rapid uptake of BPU's from two communities: 1) non-traditional service providers that bring their industry specific IP to build services on top of Cloud IT and 2) traditional services providers that leverage their people, processes and technology (including cloud computing). BPU solutions may not possess every BPU characteristic as outlined in Table 1 but the building blocks of this new service delivery model are being laid carefully by a number of



vendors.

- **Case in point:** The emergence of business process ISVs like Netsuite are heavily promoting their infrastructure and application platforms to partner with non-traditional services providers to provide vertical ISV business services to clients. An example is [Iron Solutions](#), an equipment management and intelligence company that evaluates and sets standards for agricultural equipment. Iron Solutions built an application targeting thousands of tractor dealers on Netsuite. Farmers and contractors can research and configure new equipment and appraise their trades. They are connected directly to a dealer sales team via the new service to provide end users with access to rich equipment market data.
- **Case in point:** Traditional services providers are inching their way into the BPU world, mostly through leveraging shared delivery centers and supporting processes, rather than from building on cloud computing platforms. [Accenture Premium Technology Services](#), for instance, is providing relatively standardized consumer support services to large phone/cable/internet providers. The company utilizes standard support services, frameworks and global delivery to reduce costs and improve services, and even provide financial return to clients from post sales interaction. Further, it has industrialized the delivery process to a point where it can stand up a new service for a client in less than 60 days.

Business Process Utility Adoption

Saugatuck's research indicates that the market drivers for BPUs are heavily in its favor. Our latest 2010 C-level research indicates that the three top priorities are to grow revenue, reach new customers and most significantly, improve profit margins (see *Research Alert*, [Shifting C-Level Business Priorities as the Recovery Takes Hold](#), RA-746 published 17 June 2010). The continued high priority assigned to increasing profit margins will mean that executives will focus on strengthening balance sheets and may look to outsource non-differentiated operations as a tactic to achieving this goal.

Traditional outsourcing models, while not going away will not provide the multiplicative benefits offered from BPUs including economies of scale from standardization, process maturity and technology utilization across clients. Cloud computing will be a key enabler in truly creating a flexible platform upon which service providers of all shapes *can leverage the cloud as a platform to reuse code, standardize core processes and package IP* without the need for maintaining hardware, middleware and software.

BPUs as standardized delivery models will reduce the upfront investment that an outsourcer has to provide to support a client's business process, thereby ensuring that they can be implemented quickly and profitably. Much of the traditional outsourcing pain points including transition and implementation of services will be industrialized through standardization and componentization. Cloud delivery models offer BPUs the benefits of reduced time-to-deployment and efficient leveraging of vendor resources across multiple customers. And with standardization of the application



development and delivery platform cost, savings can be passed onto the customer base.

We found it fascinating during our interviews that we received some push back and hesitation from traditional service providers on the emergence of BPUs. One reason is that, unlike some of the established hardware and software providers, this community is still not “all in” in terms of cloud computing adoption (see *Research Alert*, [Microsoft “All-in” Memo Coalesces Cloud IT Reality for Master Brands](#), RA-712 published 10 March 2010). Legacy approaches to outsourcing hamper the rate at which Cloud-enabled BPO and BPUs will be adopted. Service providers make a lot of money from implementing, customizing and upgrading on-premise technologies. The second reason may be the fact that the cloud computing market is relatively immature and service providers like to be fast followers or even laggards – they want to see clients move to a new innovation type, preferring to listen, rather than lead. The third reason voiced by one executive is that many of the first generation cloud computing vendors are still relatively small. They are perceived as not being as stable as established as legacy hardware and software vendors – where partnerships with the leading services providers are broad and deep. Building expertise around a new technology or service that is open to rapid innovation change or acquisition involves significant investment risk.

Net Impact

Business Process Utilities are at early stage of development but the seeds of innovation are beginning to sprout. *BPUs are the next logical next step in outsourcing and cloud computing as industries attempt to cut costs and push responsibility for non-value-added tasks to third parties.*

BPUs will be a key disruptive market innovation for established IT ecosystems. As movement to BPUs takes place, traditional hardware and software vendors will find it increasingly difficult to compete from a functional or cost perspective and will lose clients to providers that provide the one-throat-to-choke in term of service delivery responsibility.

SaaS providers should heavily promote cloud platforms as a basis for traditional and non-traditional services providers to market niche vertical applications and services. With the underlying infrastructure and even availability of development tools and frameworks, non-traditional services providers and business focused ISVs can quickly enter the BPU market. As a result, service provider strategists need to not only look at competitive threats from traditional ITO and BPO providers, but from non-traditional services providers that leverage cloud platforms to build services leadership in niche verticals.

We recommend that outsourcing companies evaluate cloud computing as the basis of a new generation of sourcing innovations. Standardization and leveraging of technology, people, and other resources across multiple customers will quickly become a critical differentiating factor in a competitive and fast changing BPO market. Ensure any new services are properly positioned against other more customized service delivery models, particularly in markets or functions where organizations do not like to share common processes. Develop offerings – and corresponding value



SAUGATUCK STRATEGIC PERSPECTIVES

propositions – that reflect the changing user perceptions of business value from IT and outsourcing. Promote pricing models that reduce buyer risk (pay per-use/subscription pricing) and helps establish your company as a business partner that is looking to create a win-win relationship with its customers.

About This Research

This independently developed research was published as a deliverable of Saugatuck's [Continuous Research Services](#) (CRS) subscription research program. Cognizant Technology Solutions has been granted the right to reprint and electronically distribute this article through its website, through March 14, 2011.

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