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# Top Trends 2012

January 2012

## 1. Rise of Platform BPO

Service providers and clients alike are focusing even more obtaining higher efficiencies in the delivery of services, with a greater impetus on process innovation. One such delivery model on the rise is that of Platform BPO. Platform-based services can be defined as “hosted technology services delivered on a pay-as-you-use model.” When hosted technology services are offered on a managed services model, they are referred to as Business Process as a Service (BPaaS) or Platform BPO. Driven by the quest for non-linear revenue growth, 2011 saw a slew of Indian service providers aggressively expand their platform-based service delivery offerings. Further, while companies such as Accenture and Capgemini have added significant consulting muscle to boost revenue per employee ratios, many Indian service providers have come up short on the consulting front. Platform based service delivery offers them an alternative route to increasing revenue per employee and achieving a non-linear revenue trajectories.

To better understand the platform game and the capabilities of the payers involved, Tholons has created a power conceptual framework called the Platform Capability Cube. By encompassing platform capabilities inside the three dimensions of hosting capability, intellectual property capability and service delivery capability, the Capability Cube enables a better understanding of the platform based service delivery space.

Will these platform based offerings succeed? Will they stand the test of time? Will they result in increased customer satisfaction? Only time will tell. But, one thing is certain - the Indian technology outsourcing space is breaking new ground - and it has just gotten a lot more interesting with the rise of Platform BPO.

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## 2. Vertical BPO Trend

The ongoing economic recession has challenged service provider capabilities, while forcing client companies and markets to re-think and re-visit business fundamentals: *how to secure better margins and better mitigate costs*. In response to such challenges, a paradigm shift now focuses on the transformative impact that the outsourcing of processes delivers to business units - *outsourcing may help lower costs, but what else can it do for business?*

One such development involves the growth of vertical-specific BPO processes or Vertical BPO, characterized by the delivery of an array of processes rooted on a deep understanding of a specific vertical industry. Tholons has seen a rise in the demand for *domain-specific processes*, especially across the BFSI sector. Likewise, stronger demand in the Healthcare sector in the US has been driven by the passage of the Healthcare Reform Bill. Looking forward, BPO service provision will experience a more pronounced evolution as providers and clients see the inherent advantages of *focused* Vertical BPO offerings.

### 3. Analytics as a Service

Providing Analytics as a Service (AaaS) entails taking the vast amounts of data and interpreting such repositories through complex statistical models and algorithm tools. The aim is to uncover trends and analysis would otherwise remain hidden through low-level analytics. For many businesses to remain competitive, AaaS will become increasingly essential in uncovering such data driven opportunities. In recent years, as large-scale computing becomes more efficient and less expensive, global service providers such as IBM, Accenture, and Genpact are increasingly able to provide Analytics as a Service. Key verticals who will be adopting AaaS are the BFSI, Healthcare, and Retail sectors utilizing it for risk management, financial analytics, and customer behavior patterns, among others. Tholons sees that Analytics will be a key service line in 2012, providing clients the ability to be both dynamic and calculated in an increasingly competitive global business landscape.

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### 4. Latin America – Nearshore Just Got More Attractive

While Mexico may have been the *de-facto* Nearshore destination in past years, ongoing security issues have pushed service providers and clients to look beyond America's neighbor to the south. Further, the rise of *Centers of Excellence* across Central and South America have validated the tremendous service delivery potential and capabilities of the entire region. Countries such as Uruguay (Software Engineering), Costa Rica (ITO), Chile (KPO), Colombia (BPO) – all have steadily contributed to the growing attractiveness of Latin America as an alternative service destination. Beyond the evident nearshore advantages, the value proposition portfolio of the region continues to expand. Its linguistic capability to service the Latino population in the US, the migratory impact of the Hispanic Diaspora from North America and Western Europe, and the diversity of skill sets which Latin America can collectively offer to service providers and clients – are but a few of the increasingly compelling propositions that distant offshore locations in Asia simply cannot provide or compete with.

We expect services outsourcing in Latin America to take full bloom in the immediate future. A maturing understanding of services outsourcing, strong government and institutional support to develop local services industries, increasing investments by large American and Indian players, increasing opportunities in large domestic markets such as Brazil and the collective regional markets, and stabilizing socio-economic conditions - are a few of the many positive drivers that are pushing Latin America to the forefront of services outsourcing.

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### 5. Government Outsourcing and Impact of US and Euro Crisis

With the financial crises continually affecting two of the biggest outsourcing client markets (US & UK), a question remains whether the multi-million dollar government outsourcing contracts highly sought by global service providers will be taking a hit. In general, economic conditions such as these represent opportunities for governments to increase services outsourcing tracts to better implement cost-cutting initiatives. However, continuous fear that outsourcing takes away crucial

jobs from the domestic population continues to be a point of contention for governments to utilize them, especially in the sociopolitical front. This should remain in the near term as unemployment rates remain uncomfortably high for many Western governments. The UK has recently stated that it is not restricting outsourcing – rather, the country is encouraging service providers to set up delivery centers in the UK, opening itself to both investment from global service providers and local employment. The US government is also displaying similar behavior awarding outsourcing contracts to service providers with nearshore presence such as Accenture, Computer Sciences Corp., IBM, and HP.

Tholons sees that government activity in the services outsourcing arena will increase but with diminished contract sizes due to government budget cuts. Global service providers looking to take advantage of these engagements should best have a nearshore presence as well as a highly dependable reputation and track record as government clients seek out the best bang for their buck in 2012.

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## 6. The Role of Multilateral Agencies in the Globalization Services Industry

Outsourcing destinations see the importance of developing enabling business environments, comprised of supporting institutions and stable physical and IT infrastructure. Addressing such challenges is the central role of the government or the public sector. *However*, government institutions face various hindrances in responding to these areas. For instance, public institutions often lack financing resources as well as technical and industry knowledge of services outsourcing - crippling government in effectively devising appropriate solutions for industry development. In addition, many national institutions are hampered by bureaucratic bottlenecks, which further delay the response to prevailing and highly demanding requirements of the industry.

These institutional impediments in creating outsourcing-conducive ecosystems can often be countered by establishing public-private partnerships (PPP), wherein the private sector and industry service providers can supplement the needs of the public sector in building and strengthening the industry. Tholons sees that multilateral and bilateral agencies will serve as catalysts of development in encouraging such PPPs to transpire, as well as addressing financing constraints in building the necessary foundation for a strong services environment. Tholons sees that multilateral agencies have become acutely aware of the economic and developmental contributions which a strong IT-enabled Services (ITeS) industry can contribute to nation's growth. As such, in 2012, we expect institutional agencies to continue to fund and support projects from government/ private sector that are focused specifically on the development of domestic ITeS sectors.

## 7. Japan: Reaching Out

The massive earthquake in March of 2011, tepid domestic consumption, and the continuing surge of the Yen have been the contributing factors that have pushed Japanese companies, including service providers, to give greater consideration to strategic operational and investment opportunities outside of Japan.

With the increase in the country's natural risk profile, Japanese service providers and client companies are seen to imbibe a more expansive and outward-looking mindset in attaining cost-efficient and quality outsourced services. Such orientation is reflected in increased movements of operations towards provider locations in China as well as countries in the Southeast Asian Region. The Philippines and Thailand have been some of primary Southeast Asian nations which Japanese companies have chosen to expand their operational and investment efforts in. Meanwhile, China, particularly the city of Dalian, remains to be a favored nearshore site for Japan especially for high-value software engineering services. However, with the appreciation of Renminbi and increasing labor costs across China - we expect Japanese providers to continue to explore available opportunities in Southeast Asia. Healthy domestic markets such as found in Thailand, Indonesia and the Philippines likewise provide new market opportunities for Japanese service providers as well as alternative, lower-cost destinations to establish operational redundancies.

For 2012, Tholons sees increased investment spending by Japanese providers, initially through M&A activities and expansion of delivery centers in the Southeast Asian Region. Will 2012 be the year that "Japan Inc." *reaches out* and becomes a global services player? Stay tuned.

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## 8. Social Applications as a New Medium for Service Providers

Enhanced customer interaction is an underlying benefit of using social media for BPO providers. As more people attain increasing awareness and use of various social media for communication, service providers can take advantage of this for Customer Relationship Management (CRM) processes. Tholons sees that in 2012, service providers will re-invent the use of social media as a pragmatic, interactive link to the end-users and a significant value add to service buyers.

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## 9. Increasing Importance of Risk

Tholons sees that 2012 will witness a heightened significance given to risk. While risk has always been one of components considered by investors in deciding locations, it has often been overshadowed by more primary concerns such as costs and availability of skilled labor. However, events of the past year have shown how the effects of sudden negative changes in the political, social, and natural aspects of a location can drastically and radically influence business operations. Rampant political turmoil disarmed Cairo's capacity in intensifying its BPO activities. Recent natural hazards contributed to Bangkok's sinking business attractiveness.

The risk may simply be too much. This coming year, investors will exercise more caution in choosing which locations provide the highest likelihood of sustainability and lowest risk.

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## **10. Second Wave Markets**

Global service providers have recently been establishing delivery centers in alternative client markets in the Latin America, Middle East, and Asia regions not only to increase scalability, but also to establish a local presence to seek clients within the region. With the recent natural calamities in Japan and the economic crisis in the US and Europe stalling demand for IT-BPO services, global service providers are increasingly seeing the need to try to tap into alternative client markets and diversify the potential risks of being highly reliant on the top client markets. Tholons sees this 2nd wave outsourcing markets will be increasingly crucial in the coming years as geographical niches are carved out. A more complex global IT-BPO landscape will be shaped in 2012 with the rise of even more service providers in a more vast global market.

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## About Tholons

Tholons is a Services Globalization and Investment Advisory firm that combines "Best of Breed" consulting experience with deep execution expertise and investment insights to deliver truly effective services to its clients. Tholons offers a detailed understanding of business processes and combines it with practical hands-on expertise in executing the strategy. Tholons draws upon the considerable experience of a hand-picked team, which has successfully formulated and executed globalization strategies to unlock value for Global Fortune 1000 companies. Service providers leverage Tholons expertise to optimize their global delivery model. Tholons advisors engage with government bodies to build compelling strategies for making countries attractive destination for outsourcing.

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