

BPO in Manufacturing: Catching the New Wave of Innovative Services

New Capgemini research enables manufacturers to evaluate how Business Process Outsourcing can help them improve performance by capitalizing on the next generation of higher-value services



Research Methodology: The Networked Value Circle Model

Research for the “BPO in Manufacturing” study was conducted by Capgemini Consulting’s Manufacturing Lab in Mumbai, India.

The study analyzed the demand and supply side within the manufacturing industry through the lens of the Networked Value Circle.* The old orthodoxy of a simple value chain in which manufacturing firms take new materials, transform them into products and feed them into a distribution system has gone. Manufacturers engage with their customers and distributors in the very process of innovating and developing new products, and are closely concerned not so much with pushing out good products, but with delivering value outcomes to customers who embrace not only product features, but the whole experience of use throughout a product’s lifetime.

This leads us to the transformation of a value chain, with inputs at one end and outputs at another, to a value circle involving a continuous and developmental process of value creation. Evaluation using the value circle enables us to:

- Identify and analyze the growth areas within the BPO market in the manufacturing industry.
- Identify the various business functions within a company that have potential to be outsourced.
- Identify the key focus areas that could be outsourced within a function.

The Networked Value Circle Model



As the global economy begins to show signs of improvement, manufacturing companies are shifting their focus to growth while still keeping a close eye on costs. No longer are organizations just looking for low-cost transaction processing or sourcing; they also want solutions that can deliver business outcomes and effectively support them in addressing their challenges. Increasingly companies are turning to Business Process Outsourcing (BPO) to help them achieve both goals, through labor arbitrage and economies of scale, together with optimized common processes and improved service levels.

Manufacturers historically have outsourced non-core processes such as human resources and finance, and in recent years have extended their outsourcing activities to areas like procurement and supply chain. Many companies are now beginning to further expand their outsourcing to higher-value services such as product design and innovation; marketing, sales and service management; and even social media.

To better understand emerging trends in BPO in the manufacturing industry and to identify areas with new growth potential, Capgemini conducted research looking at the practices of leading companies operating in segments such as aerospace and defense, automotive, high tech and industrial products. The research is designed to help manufacturing organizations identify functions to evaluate in their own operations where BPO can assist in optimizing their bottom line and improving the top line.

Steady Growth Expected for BPO Market

The global BPO market is expected to grow at an average of 6.5% CAAGR until 2015.¹ This is driven both by the continued growth of the traditionally outsourced areas of finance and accounting, human resources and customer service functions, and the rapid expansion of new scope areas such as supply chain management, product design and innovation, and marketing support. To get a more detailed view of what this growth will look like, our research evaluated current and emerging BPO trends within the manufacturing industry using our “Networked Value Circle” model (see previous page).

The research focused on five functional areas: finance and accounting (F&A), product design and innovation, supply chain management (SCM), marketing, sales and service (MSS), and human resources (HR). The study highlighted the following:

- In F&A new offerings like decision support and financial planning and analysis will fuel growth in the coming years.
- The product design and innovation market, while small, is expected to post gains in the next few years.
- In SCM, 4PL logistics integration will be an area of significant growth.
- In MSS, both customer service management and technical publications will remain high-growth areas.
- In HR, growth is expected to be slow with a large number of specialized players in a relatively mature market.

¹ NelsonHall: "Global BPO Market Forecast: 2011-2015," October 2011

Further, our research also identified higher-than-average growth of the BPO market in the Asia Pacific and Latin America regions across all areas.

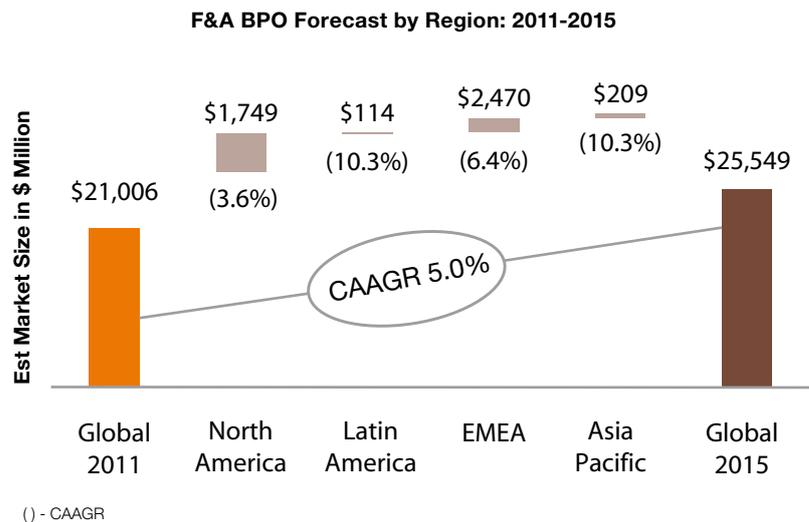
Following is a deeper dive into the research findings for each of the five functional areas.

Finance & Accounting: New Services Will Fuel Gains

Most leading manufacturers have long outsourced their transactional F&A activities like accounts payable, travel and entertainment, billing and invoicing, order management and collections, general ledger and fixed assets. Some organizations are now moving to outsource higher-end processes such as cost analysis,

business performance analysis and reporting, new business and pricing analysis, and audit and risk management. Areas less likely to be candidates for BPO include external reporting, tax planning and treasury management.

Although transactional F&A outsourcing represents a mature market, new, non-core activities like decision support and financial planning and analysis are expected to fuel gains in the new few years, helping to contribute to a projected growth rate of at least 10%. Leading BPO vendors are expected to develop capabilities that will enable them to provide end-to-end offerings within the F&A BPO landscape.



Source: NelsonHall: "Global BPO Market Forecast: 2011-2015," October 2011

Product Design & Innovation: Poised to Grow in Coming Years

The BPO market for product design and innovation services is relatively small, but is projected to grow by almost 30% in the next four years.² Some leading manufacturing companies are beginning to offshore their less critical R&D tasks through a shared-services model in developing countries. Activities increasingly being outsourced include technical publications, drafting and modeling, testing, systems design and prototype design.

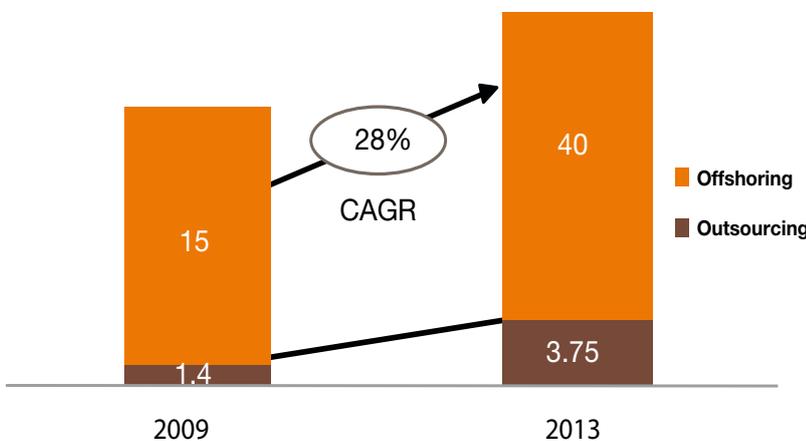
Organizations are offshoring product design and innovation activities not just for the cost benefits, but also to achieve flexible resource capacity (especially in industries with cyclical engineering workloads and short product lifecycles), reduce time to market, access to specialist tools, and acceleration of development for localized products for emerging markets.

EMEA and the Americas represent the biggest markets for product design and innovation BPO within the manufacturing sector, with high tech and aerospace and defense the most active segments. In the aerospace segment, BPO activities focus mainly on engineering services, while a large number of high tech companies outsource the majority of their research and development work to BPO vendors or specialized providers. Some automotive manufacturers are outsourcing activities such as design, prototyping and CAD, while many industrial product manufacturers have set up captive or shared-service centers to handle R&D activities.

Most BPO vendors are investing in new capabilities like research and product design to increase their portfolio of services and move higher up the R&D value chain. For example, in the aerospace segment, capabilities have evolved from basic CAD/CAM, software development and homologation, to composite design, tolerance analysis and digital prototype assembly. In addition, capabilities are being developed in high-complexity areas of core/advanced R&D, including biofuel-based engine development (environmental compliance), crash simulation and high-end design work like aircraft engine design.

In the automotive segment, current capabilities (mainly of medium complexity) include middleware and application development, sub-assembly design, digital manufacturing, and technical and plant simulation. However, BPO vendors are now investing in new offerings to move up the value chain to offer services around design automation, integrated system design, and hardware and chip design.

Engineering & R&D Services Global Offshoring Market (US\$ 000 million)



Note: In offshoring, internal shared services are delivered from an offshore location for the benefits of labor arbitrage. Outsourcing refers to delivery by a third party for the benefits of both labor arbitrage and access to skills and best practices.

Source: Capgemini Consulting Manufacturing Lab analysis

² Capgemini Consulting Manufacturing Lab analysis

Supply Chain Management: Increasing Complexity Will Drive Outsourcing Trend

The research focused on three key areas within SCM:

- Order Management
- Procurement and Sourcing Management
- Logistics Management

Order Management: The Order Management BPO market is expected to grow by approximately 10% over the next few years as manufacturing companies continue to outsource end-to-end processes. Local provisioning is expected to decrease significantly over current levels as companies adopt either shared-service centers or outsourcing for their order management services. Key growth will come from end-to-end management offerings to address different degrees of complexity and customer configuration among manufacturing organizations.

Procurement and Sourcing Management: For some time, manufacturing companies have outsourced their procure-to-pay cycle, including activities like requisitioning, purchase order management and invoice processing. A growing trend involves outsourcing the entire source-to-pay cycle, taking into account activities such as managing catalog content, tracking and improving supplier performance, supplier e-procurement set-up, developing a sourcing plan and conducting spend analysis.

As the global economy continues to revive, analysts expect the procurement BPO market within the manufacturing sector to grow at a fast pace. The strongest gains are anticipated in EMEA and Asia Pacific and with niche activities like indirect procurement.

The high tech segment will continue to lead the outsourcing market within the procurement function. In contrast, the aerospace and defense segment will continue to centralize sourcing and procurement within a shared-service center and be less likely to outsource these functions.

On the vendor front, providers are consolidating the sourcing BPO market through acquisitions and partnerships in order to offer end-to-end services that include procurement operations, operational sourcing and strategic sourcing.

Logistics Management: The global recession had slowed the outsourcing of logistics operations in the manufacturing industry but it is steadily rising again, especially in EMEA. As supply chains become more complex they are increasingly being outsourced to logistics service providers, which are focusing on developing capabilities around the strategic logistics portion to manage the entire logistics value chain.

The logistics outsourcing industry is expected to grow in the next few years by at least 10% due to the recognition of the supply chain as a driver of enterprise-wide performance improvements and greater competitive advantage.

Much of the outsourcing activity centers around fourth-party logistics (4PL), independent coordination of end-to-end logistics services for maximum benefit. By adopting a holistic approach 4PLs have been able to integrate the competencies of various logistics players, including third-party logistics (3PL) providers, leading-edge consulting firms and technology providers. This has enabled them to offer manufacturers better pricing and a wider range of services.

The automotive segment remains a strong BPO market for logistics services, while high tech has seen significant growth in this area in the past few years.

As the demand for sustainable operations increases within the manufacturing sector, BPO vendors can help their clients maximize the sustainability of their supply chain through increased consolidation, routing and mode selection. A desire for cost reduction as well as a concern about sustainability should encourage logistics BPO providers to move from air to ocean or from road to intermodal and rail transportation when choosing transportation modes for their clients.

Most Frequently Outsourced Logistics Activities

Outsourced Logistics Service	User Percentages				
	All Regions	North America	Europe	Asia Pacific	Latin America
International Transportation	78%	66%	91%	77%	84%
Domestic Transportation	71	65	77	74	69
Warehousing	62	65	61	65	63
Freight Forwarding	57	52	54	64	65
Customs Brokerage	48	49	43	56	45
Reverse Logistics (Defective, Repair, Return)	27	25	28	33	22
Cross-Docking	26	29	28	25	22
Product Labeling, Packaging, Assembly, Kitting	24	19	28	24	26
Transportation Planning and Management	23	24	27	21	16
Inventory Management	21	20	16	27	25
Freight Bill Auditing and Payment	17	35	12	11	8
Information Technology (IT) Services	15	15	14	13	16
Order Management and Fulfillment	14	19	10	15	14
Service Parts Logistics	14	10	14	19	10
Customer Service	11	9	7	14	16
Supply Chain Consultancy Services Provided by 3PLs	11	15	7	13	9
Fleet Management	10	8	9	14	9
LLP (Lead Logistics Provider)/4PL Services	9	7	10	13	4
Sustainability/Green Supply Chain-Related Services	4	3	3	6	4

Source: 2012 16th Annual Third-Party Logistics Study, Capgemini Consulting, Penn State University, Panalpina, Heidrick & Struggles, eyefortransport

Marketing, Sales and Service: Growing Demand for Higher-Value Services

The BPO market for marketing, sales and service is relatively mature in areas such as publication services, customer analytics, and contact-center and channel management. In particular, document management processes like publication and master data management have been increasingly outsourced by manufacturing companies enabling them to concentrate on core processes.

However, opportunities exist to expand BPO into higher-value areas like business analytics, customer relationship management (CRM) and market intelligence. These new areas will help drive steady growth for MSS in the next few years.

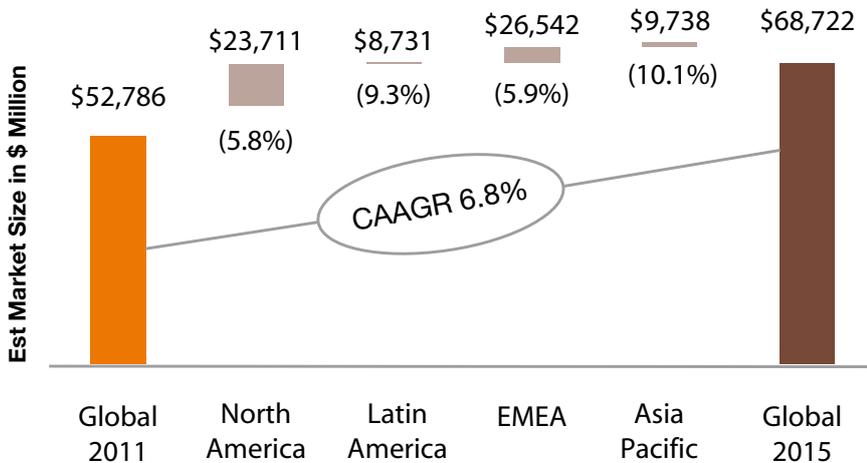
Strong demand is anticipated for services that combine cost reduction with improved customer experience. Customer service management outsourcing is expected to increase as companies look for additional ways to improve customer interaction and retention, or move into new markets or customer segments. Customer service management is also gaining importance in economies such as India and Brazil.

From a segment standpoint, aerospace and defense companies are primarily outsourcing publication and information management activities. Automotive OEMs are mainly outsourcing document management, customer care and service management. And high tech companies are outsourcing their customer care and CRM activities.

To address the increasing demand for higher-value services, BPO vendors are expanding their expertise in business and customer analytics and other innovative services such as product master data management, customer interaction management and interactive marketing. A number of investments are being made by BPO vendors, including:

- New service offerings in sales support with the ability to impact not only general and administrative costs but also cost of goods sold. A typical suite of services may include lead qualification, customer profiling, quoting, pricing, service revenue assurance and channel partner support.
- Acquisition of mid-size companies that provide analytics and data management services with expertise in specific industries.
- Acquisition of companies that develop web-based marketing platforms to assist in creating and hosting sales and marketing solutions that enable businesses to engage consumers earlier in their decision-making process.
- Acquisition of companies that provide business processes and methodologies dedicated to the after-sales operations of industrial companies, an area of growing importance.

Customer Management Services Market Forecast by Region: 2011-2015



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Source: NelsonHall: "Global BPO Market Forecast: 2011-2015," October 2011

Human Resources: Mature Market with Slower Growth

Transactional HR activities have long been outsourced by many manufacturing companies, and the market is very mature with a number of established global players. The growth rate is expected to remain steady, averaging only about 5% by most estimates, with much of the growth coming in the Asia Pacific region.

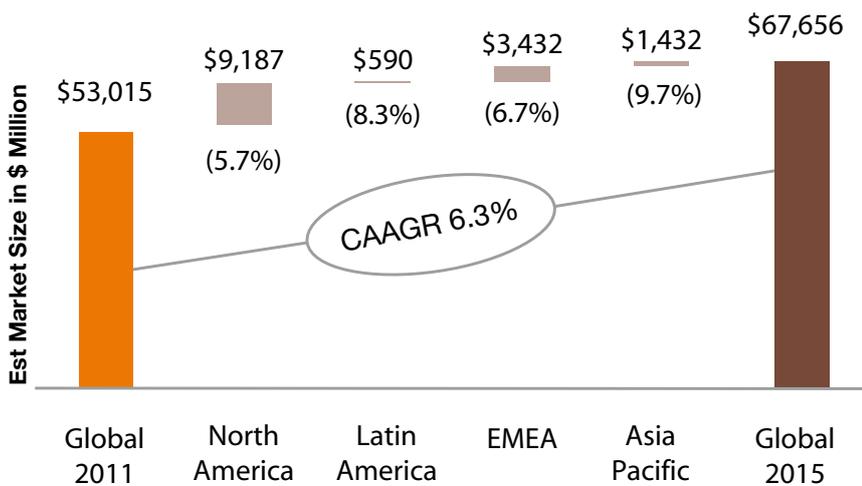
The HR BPO market is largely dominated by vendors offering end-to-end or multi-process HR solutions and that should remain the case in the coming years. Expected HR BPO growth areas include professional advisory services and corporate governance services.

Social Media: A New Candidate for BPO

Adoption of social media among manufacturers is increasing as companies begin to realize benefits in areas such as product co-creation, marketing, and customer communication and interaction. Leveraging social media to generate measurable benefits with activities ranging from service management to marketing of new products is used by customer service departments inside manufacturing organizations. Adoption of social media by manufacturers is expected to continue to gain momentum as companies try to connect with customers at various stages of the product lifecycle.

As manufacturers expand their activities in social media and social marketing, some are beginning to look to third parties to more effectively manage this early-stage service. While BPO services in social media are in the nascent stage, growth is anticipated in the coming years as manufacturers look to outsource services such as e-mail marketing, social campaign management, social media marketing, and web and social media analytics.

HR BPO Market Forecast by Region: 2011-2015



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Source: NelsonHall: "Global BPO Market Forecast: 2011-2015," October 2011

Current HR services being widely outsourced include employee record keeping, benefits administration, payroll and relocation services. Additional employment services such as training administration and recruitment assessment are also being outsourced extensively. Other potential outsourcing candidates include learning management, change management, and compensation and benefit analysis. Those less likely to be outsourced are performance management, labor relations, HR policy and HR strategy.³

³ TPI, www.tpi.net



Conclusion: Taking Advantage of Higher-Value Services

For many years, manufacturers have outsourced processes in order to reduce operational costs and gain access to skills and technology in a more flexible operating model. Our research makes it clear that new opportunities exist to not only extend the scope of outsourcing, but improve performance and the top line by outsourcing higher-value services. To take advantage of these opportunities we recommend that manufacturing companies take the following actions:

Benchmark: Look to your traditional and non-traditional peers to find out what is being outsourced. Consider all aspects of the enterprise.

Focus on outcomes: Consider as an organization the specific business outcomes you want to focus on, then work with solution providers to achieve these outcomes.

Accelerate: When looking at new markets, business segments or expansion, consider outsourcing to gain competitive advantage and accelerate business benefits.

Be brave: When outsourcing services, maximize the end-to-end scope to reduce the impact of hand-offs in processes.

Multisource: One size does not fit all, and while it is important to keep the number of vendors low to reduce governance costs and risk, specialist providers in specific areas may offer greater advantages.



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Capgemini’s “BPO in Manufacturing” research was conducted by Capgemini Consulting’s Manufacturing Lab, Mumbai, India, led by Saurabh Kulkarni.



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