

Business Process Outsourcing

Research Coverage Report

"Market Intelligence for Industry Players"

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Capstone Partners

BOSTON



CAPSTONE PARTNERS LLC

One Boston Place
39th Floor
Boston, MA 02108
617.619.3300 (o)
617.619.3301 (f)

www.capstonellc.com

BUSINESS SERVICES GROUP

Jim Beakey
Director

617.619.3365

jbeakey@capstonellc.com

Jacob Voorhees
Vice President

617.619.3323

jvoorhees@capstonellc.com

Jeff Baker
Analyst

617.619.3307

jbaker@capstonellc.com

Craig Piccirillo
Head of Research

617.619.3333

cpiccirillo@capstonellc.com

Justin Ross
Analyst

617.619.3310

jross@capstonellc.com

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EXECUTIVE SUMMARY

Businesses have long relied on third parties to complete repetitive, non-core tasks such as payroll processing, allowing them to focus on core business goals and drive down costs. Recently, the increasing pace of globalization, technology adoption, and government regulation has created a more competitive business environment that requires an even greater focus on executing core business objectives. Simultaneously these trends have created opportunities for organizations to further outsource non-core activities.

Improved global telecommunications and an increasingly skilled offshore workforce have combined to provide greater potential efficiencies for companies looking to streamline operations through outsourcing. Additionally, evolving information technology systems are helping to make previously complex, manual tasks more routine. As a result, companies can now achieve improved cost savings by outsourcing more complex tasks to firms with stronger technology expertise, lower labor costs, or both. These trends have increased demand for business process outsourcing (BPO).

The \$425 billion BPO market consists of a diversified vendor landscape offering a variety of services, ranging from basic tasks such as payroll processing or transcription services to more complex functions such as tax strategy and associate-level legal work. Other BPO services include medical coding, accounts receivable/payable, order management, document management, insurance claims processing, and procurement. The wide variety of available services has created a fragmented market with a handful of large players among a multitude of niche providers focusing on specific services or industries.

The BPO Market

Market Size – According to IDC, companies spent more than \$425 billion on BPO worldwide in 2005.

Growth Drivers – Cost savings; business focus; standardization of processes across global business units; technology advancements; as well as the constant drive to increase shareholder value are key growth drivers in the BPO market. Capstone expects the market to grow to approximately \$641 billion by 2009, representing a 11% compound annual growth rate (CAGR) over the period.

Key Vertical and Horizontal Operations – Capstone segments the BPO market into five segments, healthcare; finance and accounting; legal, insurance; and procurement. There have historically been a few large vendors broadly focused on business process outsourcing. In recent years, demand for more industry- and vertical-specific process outsourcing has increased, and a large universe of specialized process outsourcers has emerged. These vendors continue to broaden their portfolios and many also now serve multiple industries. Capstone expects significant consolidation driven by vertical and horizontal operation expansion.

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Full Service BPO – Large enterprises are increasingly looking to outsource multiple processes to a single provider. Capstone expects this to drive accelerated consolidation as BPO providers broaden their service offerings to compete for larger deals.

Geographic Expansion – BPO providers continue to expand their offshore presence. With low labor costs and skilled populations, countries such as the Philippines, China, Ireland, the Czech Republic, and Romania will increasingly compete with India for BPO resources. Additionally, large enterprises are investing in offshore operations that can also be utilized as captive centers that can accommodate internal business operations as well as a third-party BPO services.

Continued Consolidation – Capstone expects consolidation activity to continue in the BPO market. There have been several recent large deals this year, including EDS's acquisition of Mphasis for \$382 million and ADP's sale of its claims services group to Solera for \$975 million. Consolidation is being driven by BPOs seeking to diversify their service offerings in order to keep up with the increasing customer demand for more complex, full service process outsourcing.

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