



# BPO and the Evolution of the Modern Back Office

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# INTRODUCTION

The great Chinese philosopher, Confucius, once said, “study the past if you would define the future.” Strange way to start, but we hope it will make embracing the depth of our topic a little easier.

At first glance, the term back office denotes something clerical, mundane and low tech, something secondary, so insignificant it is kept in the “back.” A common misnomer for many, I’m afraid, and it’s really hard to blame them. Progress can be confusing. They could easily have not connected the technological innovations, revolutions and evolutions that have taken place over that last 260 years to the continual progression of less noticeable aspects of business process development.

Beginning with the First Industrial Revolution, from the early 1760’s to about 1840, inventions like the Watts Steam Engine in 1763, the locomotive in 1804, the photograph in 1826, enabled the transition to new manufacturing and commercial processes, especially in Europe and in the United States. In fact, the 1837 invention of the telegraph by Samuel Morse, in and of itself, paved the way for the emergence of real-time, long-distance business transactions.

The next critical business advancement, perhaps, occurred in 1849 when Italian innovator, Antonio Meucci invented the first telephone; or certainly in 1876 when Alexander Graham Bell was awarded the U.S. patent for the device. This apparatus would ultimately lead to the development of massive analog telecommunications networks and, indirectly, to the 1971 invention innovator, Ed Roberts, would first call the “personal computer.”

Finally, we would be remiss if the contribution to modern back office operation made by British scientist, Tim Berners-Lee, the 1989 inventor of the world wide web, were not acknowledged. The web changed everything. Networks became digital and global, utilizing coaxial cable, fiber optics and satellites. Voice and data were neutralized into binary elements, allowing Information to move across the globe at the speed of light. Throughout history, the natural propensity of the human race has been the accidental relationship between ideas, technical and socioeconomic advancement. The evolution of the modern back office would be no different.



## THE BACK OFFICE

The term "**back office**" relates to the typical layout of early industrialized offices, beginning around 1870. The front office was customer-facing, a practical consideration as most customers entered through the front door when they visited companies to transact business. The primary functions of the front office have always been sales and direct customer engagement. Typically, front office employees were attractive and amiable. Their collars were clean, white and well starched, reflecting the image the company desired to be associated with their brand.

The back office was made up of "clerical" or administrative and support personnel. Heads down, not customer-facing, they handled things like settlements, clearances, record maintenance, regulatory compliance, bookkeeping/accounting, record storage, product fulfillment, and so on. Put another way, the front office presented the product and/or service while the back office made it and supported it. The physical boundary between front and back office was often an actual wall which in modern times still exists, at least in a metaphorical capacity.

I entered the workforce some years ago, first as a foot messenger on Wall Street where part of my route included deliveries in the newly built New York World Trade Center. Eventually, I got a big break – as I saw it – and landed a job in the file room of American Express. Much like a librarian, my job was to retrieve and return numerically sequenced manila folders filled with customer information, the same type of information that today can be accessed with a 5-second computer search. I was so good (or so bored) at retrieving files that I was soon promoted to Accounting Clerk, handling reconciliations for lost or stolen traveler's cheques and then to Overpayment Correspondent, drafting collection letters and evaluating consumer responses. Invisible cogs in a giant machine, my co-workers and I worked in massive rooms filled with people, but void of unscheduled social interaction. We were quotas, deadlines and debit write-offs. Back office.

## THE THIRD PARTY

Business Process Outsourcing (BPO) is an integral part of the global outsourcing industry and refers to a business arrangement between three (3) parties; a client; their customer; and a third party, engaged to provide outsourced services. The BPO provider offers third-party services with the intent of helping client organizations create, manage, and optimize business process performance, resulting in a delightful end-customer experience (CX). Properly deployed BPO solutions have the effect of enhancing the client's core business, driving growth and optimum profitability.

The global Business Process Outsourcing (BPO) services market is often carved into segments, based on the service type contracted by the client and the industry of the client. BPO service types may include Customer Engagement (Call Center), Information Technology, Finance, and Accounting, e-commerce, Human Resources, Training and Development, Recruitment, Procurement, Support Services, and general Back Office (services not covered in the other types). The market can be further divided into on-premise or cloud-based enterprises, depending on where the enabling software and infrastructure resides. Also, as with any business, BPO's can be small or medium-sized (SMB); or large businesses. Today, the industry verticals most likely to be attracted to BPO services are IT and telecom, retail and consumer goods, travel-related services, manufacturing, healthcare, government, public utility, and occasionally, non-profits.

The BPO industry is currently dominated by Call Center and Back-office services, representing, approximately, an 80% share. However, we are seeing rapid expansion not only in growing verticals like healthcare and financial services, but in embryonic sub-sectors like data analytics and transcription, software engineering and development, computer animation, Artificial Intelligence (AI) and Robotic Process Automation (RPA). The BPO market is experiencing an unprecedented pace of technological advancement, however, many of these services are still normally categorized as back-office work.





# EVOLUTION

According to a study conducted by Grand View Research, Inc., the global Business Process Outsourcing market is expanding at a Compound Annual Growth Rate (CAGR) of 8.0 %, annually, and is expected to reach US \$405.6 billion by 2027. Also, according to the American Marketing Association, BPO is expected to achieve a CAGR of 10.7% by and during 2024. The major factor encouraging companies to outsource their business activities is their essential need to reduce operating costs. However, enhanced operational efficiency, improved customer service, increased business flexibility and technological, as well as, process innovation, are some other factors that will drive BPO growth over the forecast period.

Numerous companies are considering back-office outsourcing to increase their productivity workload management and further reduce costs. This includes, not only established businesses, but new business entries seeking to expedite their pace of achieving positive cash flow by starting with a scalable, low-cost operation model. By 2020:

- ❖ The BPO customer engagement segment owned a 31.0% global market share. This inspired phenomenal expansion of front office call centers around the world, as well as an increasing demand for tele-sales, customer engagement and technical support personnel to support high demand sectors like healthcare, telecommunications and IT.
- ❖ North America still accounted for the largest share of the global BPO market.

- ❖ Developing technologies like cloud computing, social media, AI software, and robotics was being used by BPOs to reduce costs and accelerate growth.
- ❖ The notion that BPO was synonymous with call centers had become outdated. BPOs were increasingly used to replace internal business functions like accounting, human resources, claims processing, coding, and other critical tasks.
- ❖ The human resources service segment was growing at an astounding pace, emphasizing the outsourcing of back office services like administration, recruitment and relocation, payment processing, employee benefit and enrollment information services.
- ❖ A BPO sibling had emerged. Knowledge Process Outsourcing (KPO) catered to new demands for more specialized roles such as equity research, market research, web design, solution development, computer automation, etc.

Back-office positions today, are typically located away from a company's headquarters, often in cities where labor costs and commercial leases are less expensive. Many companies have even chosen to outsource and/or offshore back-office roles for further cost reduction.

Many companies, especially those headquartered in the US, frequently outsource services to workers in offshore locations, to reduce labor costs and improve organizational efficiency. From its 1992 industry introduction, the Philippines has emerged as the world's second-largest destination for BPO, overall. About 70-80% of all outsourced jobs in the Philippines are contact center-related. The others are categorized as back office. This includes a multitude of services, ranging from supporting social media applications and web content moderation to accounting, graphics and transaction processing. The Philippines BPO segment employs more than 1.5 million people and generates approximately US\$25 Billion in annual revenues.

With a population of over 1.3 billion people, 3.1 million skilled graduates added to the workforce annually, India is considered one of the preferred destinations for outsourcing of key back office functions. This includes IT jobs, but also in positions in HR, payroll management, digital marketing, and search engine optimization (SEO).

Global outsourcing service providers continue to use technological innovations to keep operating costs low, address market challenges, enhance their offerings, and manage talent shortages. The progressive development of cloud technology, for example, has afforded many companies the opportunity to allow employees to work from home. This arrangement works well in a back-office setting, offering the benefit of reduced facility costs, as well as increased employee safety, job satisfaction and work/life balance. Remotely employing back-office staff also allows companies to attract a more diverse pool of applicants.

# WHAT'S NEXT



We see two (2) major trends expected to emerge in BPO technology.

## 1. Focus on Social Media Management Tools

Over the last 2 decades, the most significant BPO and captive customer technologies have been websites and Interactive Voice Response (IVR). Social media, however, has been a game-changer. Today around 79% of the U.S. population has at least one social media account which has led to a notable shift in consumer behavior. According to Credo Consulting, consumer demands for multi-channel communications (voice, social media, live chat, etc.) has exploded over the past five years. Browsing social media is currently the third most popular online activity.

## 2. Emphasis on Process Automation

New technologies that have developed over the past few years, including Robotic Process Automation (RPA), have begun to impact the BPO industry, especially the back-office segment. RPA uses bots (internet software that performs repetitive tasks) and Artificial Intelligence (AI) to complete work faster and at a lower cost. Therefore, much like with IVR, BPO companies will need to invest in and/or integrate with RPA to remain competitive business process outsourcers and the service offerings of RPA. BPO service providers further chance replacement by RPAs.

Back Office BPO service providers have a huge opportunity to get in front of this change through the intelligent deployment of social media management tools. This would enable services such as social media monitoring, business intelligence and actioning customer response. While it is an uphill task for many BPOs, the top industry players are already working to make Robotic Process Automation part of their standard client services portfolio.



Moving forward, outsourcing companies will continue to automate processes, improving productivity, reducing costs, and bringing innovative solutions to their clientele.

Speaking of game-changers, imagine yourself driving down a poorly lit road, only to discover your way blocked by a massive obstruction. The unexpected barrier, a wall, is so vast that there is no visible limit to its height or width. There seems to be no way over and no way around. Your world just has changed. You have arrived at a global pandemic.

From the first identified case in Wuhan, China, early December of 2019, global COVID-19 cases have risen to over 6.8 million in just over six (6) months. The tragic death toll has exceeded 397,000, worldwide. The United States alone has had 112,000 people die in four (4) months. Put in perspective, this is almost twice the deaths linked to US participation in the Vietnam war which lasted nine (9) years. Regrettably, however, the cases are still adding and the death toll mounts on a daily basis. No way over and no way around, until there is a vaccine.

While it may not slow the stride of BPO and back office development, it will certainly alter its design. It is easy to predict the expedited transition from on-premise to cloud-based technology. After all, the BPO industry moved rapidly - and reactively - to a work from home (WFH) operating model, as a survival mechanism, when the virus began to spread. Safety concerns and the need for business continuity took precedent over concerns pertaining to technical infrastructure and data security. What now though?

- ❖ Will you be able to bring your workers back to the office?
- ❖ Should you even try?
- ❖ If yes, should it be all of them or should we deploy a “distributed” workforce? If any
- ❖ of them, should they work from the office all the time?
- ❖ How do you facilitate social distancing?
- ❖ Do your site footprints need to double?
- ❖ What is the required technological and human capital investment?
- ❖ What about quality assurance, performance management?
- ❖ Do your geographic boundaries even matter anymore?
- ❖ If workers are home-based, does it matter where their home is?
- ❖ What happens to your family-oriented work culture?

As an industry, we are all standing in front of the same wall. Each BPO enterprise will now have to ponder these questions and formulate a strategy that will keep them competitive. Cloud-based companies with high client engagement will clearly have the upper hand. Connex, for example, went from 100% site assigned workers to 98% work from home in 48 hours. We supplied tools and connectivity, experiencing 0% service disruption to our clients. How we evolve from this point will depend on the customized support scenarios each of our clients agree to. That is likely an aspect of the new normal.

# CONCLUSION

Understanding the past when it comes to the back-office of industrialized businesses and how their evolution has been influenced, not only by technological advancements, but by society as a whole, is vital to the comprehension of back-office outsourcing in the modern era. The future offers equal uncertainty. It is 2020, and no one knows where the progression of high-speed, interactive network technology, Artificial Intelligence, robotics and real time social networking will take us as we move through this already turbulent decade. The contemplation, however, is both, exciting and perhaps a little intimidating. I suppose the future always is. Nonetheless, there can be no doubt that back office jobs and the way they are done will change dramatically over the next 10 years. Consequently, imagination and bold innovation will determine the success, even the survival, of back-office Business Process Outsourcers.

