

The Rise of Front and Middle Office Process Outsourcing

It isn't the same as your old BPO

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Business services organizations are continuing to add scope beyond traditional back office functional processes. SSON's *The State of Global Business Services in 2023 and Beyond* report states "The scope of services offered by GBS/SSO has been consistently expanding. While the early years saw the main focus on Finance/Accounting & HR, today we see expansion into service lines that include master data management (58%), procurement (56%), customer services (41%), and supply chain (32%). The potential for expansion is vast, as the process standardization, performance and analytics insights that define successful shared services are increasingly recognized as being transferable to the middle and front office."

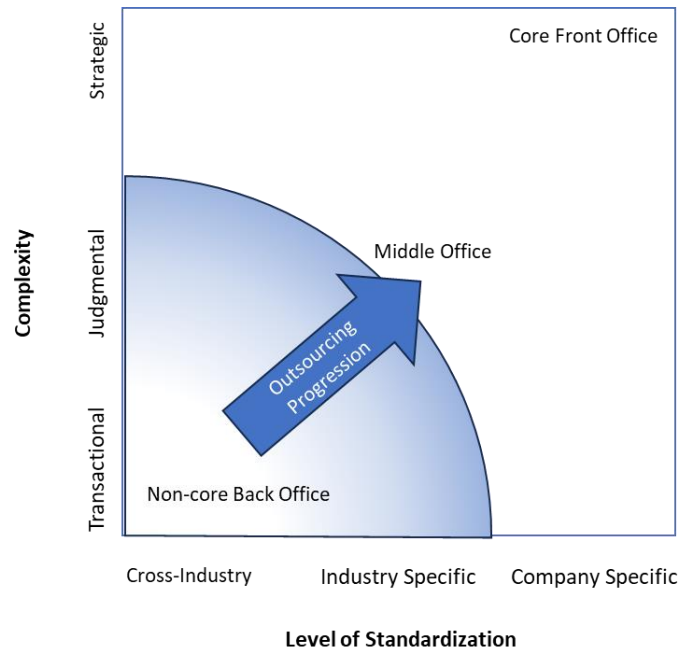
This environment provides fertile ground for outsourcing service providers to promote the expansion of their offerings into front and middle office processes. SSON's *The 2022 Outsourcing Report: A New Opportunity for the Future GBS Model* indicates for example that "supply chain, marketing, and corporate communications will double in terms of outsourcing'. Further fueling this push has been the deceleration in the growth rate of traditional Business Process Outsourcing (BPO) processes. IBIS World cites that BPO companies' revenue has been growing at a compound annual growth rate of 1.9% between 2018-2023. This is a far cry from the double-digit rates in the earlier days of BPO adoption causing service providers to naturally look to new areas of growth.

Outsourcers are touting their front and middle office process capabilities. The closer one gets to the front office, the more industry specific these processes become. Examples include trade promotions management for consumer goods companies, merchandising and new store and display set up for retailers, and care management for health care providers.

While there are similarities between traditional BPO and front and middle office process outsourcing, there are also distinctions in how you evaluate and contract for these services. Before you jump in, consider the following ways in which you may need to re-orient yourself.

Rethink your criteria for defining which processes are candidates for outsourcing. Historically, companies maintained a hard line as to what processes to consider to be outsourced. Transactional and rules-based processes that were largely generic across industries were good outsourcing candidates. Knowledge-based and strategic processes that were more specific to an industry or company were not. This was driven by an outsourcing value proposition predominantly based on process standardization and labor arbitrage.

But outsourcing's value proposition has changed and the criteria upon which processes are considered for outsourcing has shifted as depicted in the figure below:



Outsourcing in today's environment is much more about acquiring digital transformation and analytical capabilities to drive business outcomes than it is about simply reducing costs and improving service levels. Front and middle office processes frequently have more knowledge based and strategic characteristics.

Similarly, while core versus non-core has not disappeared as a screening criterion, the way it is applied has shifted. Today's outsourcers are more transformational partners than arms-length providers of services. This means that companies are more willing to outsource activities that drive customer experience. In the past, all but the most mundane customer facing processes were categorized as core. This change also means that front and middle office activities that drive direct business outcomes like revenue growth and cash flow are now outsourcing candidates.

Open your lens in looking for comparable case studies. "Horizontal" back-office processes like Finance and Accounting or HR which have been the backbone of BPO are by their nature more similar across companies, independent of industry. Hence, service providers were able to build up a large set of case studies of very similar work as to what companies were looking to outsource.

Process similarities across companies narrow as providers take on middle and front office work. It will be as important to look at where a provider has applied core capabilities such as analytics or digital technology in a related industry process as opposed to a close replica when evaluating your sourcing options.

Allow for more complex solutioning and contracting. While the benefits of outsourcing may increase as one moves into front and middle office sourcing, so do the risks for both buyer and seller. Therefore, particular attention needs to be paid to how the target operating model is solutioned with an emphasis on the handoffs and accountabilities assumed by both parties.

Be prepared for more work to be shared across an end-to-end process between an outsourcer and the retained organization. This requires a very clear delineation of what work is to be performed by each party such that more “problematic” work is not just passed back to the retained organization to resolve. It may also require more effort to redesign the retained organization.

Service providers are willing to take on some level of accountability for improving business outcomes, but only to the extent those accountabilities are well defined and they have at least direct influence if not direct control over how the business outcomes are achieved. Resultingly, pricing models and service level commitment mechanisms in the contract may take longer to resolve.

As the focus shifts to more directly impacting business outcomes, careful attention must be paid to mitigating operational losses such as lost sales or regulatory and related risks such as data privacy breaches. Some of this can be mitigated directly through the operating solution deployed such as applying triggers in the software applications deployed to flag potential operational or regulatory errors. But also expect robust negotiations over limits of liability including elements that trigger a liability claim.

Allow for more complex transitions. Front and middle office processes with their more judgmental characteristics don’t lend themselves to simple rules-based standard operating procedures. Expect service providers will need to spend more time and effort during knowledge transfer and that it will take longer to achieve stability and ongoing productivity or other benefits.

Throughout the process make sure to plan for more robust change management. All key aspects of change management including stakeholder engagement, clarifying decision rights, employee relations, and ongoing relationship management tend to be more complex with front and middle office process outsourcing.

The frontier of traditional outsourcing is changing – the effort is more complex and requires more attention to managing risks. However, the cost and strategic advantage benefits may far outweigh the increased complexity and sophistication required for success. Early adopters of front and middle office processes can expect to outperform their competitors that languish in a less expansive traditional model.