Driving economic recovery in South Africa's BPO industry

How business process outsourcing can position itself to create jobs and grow beyond the crisis

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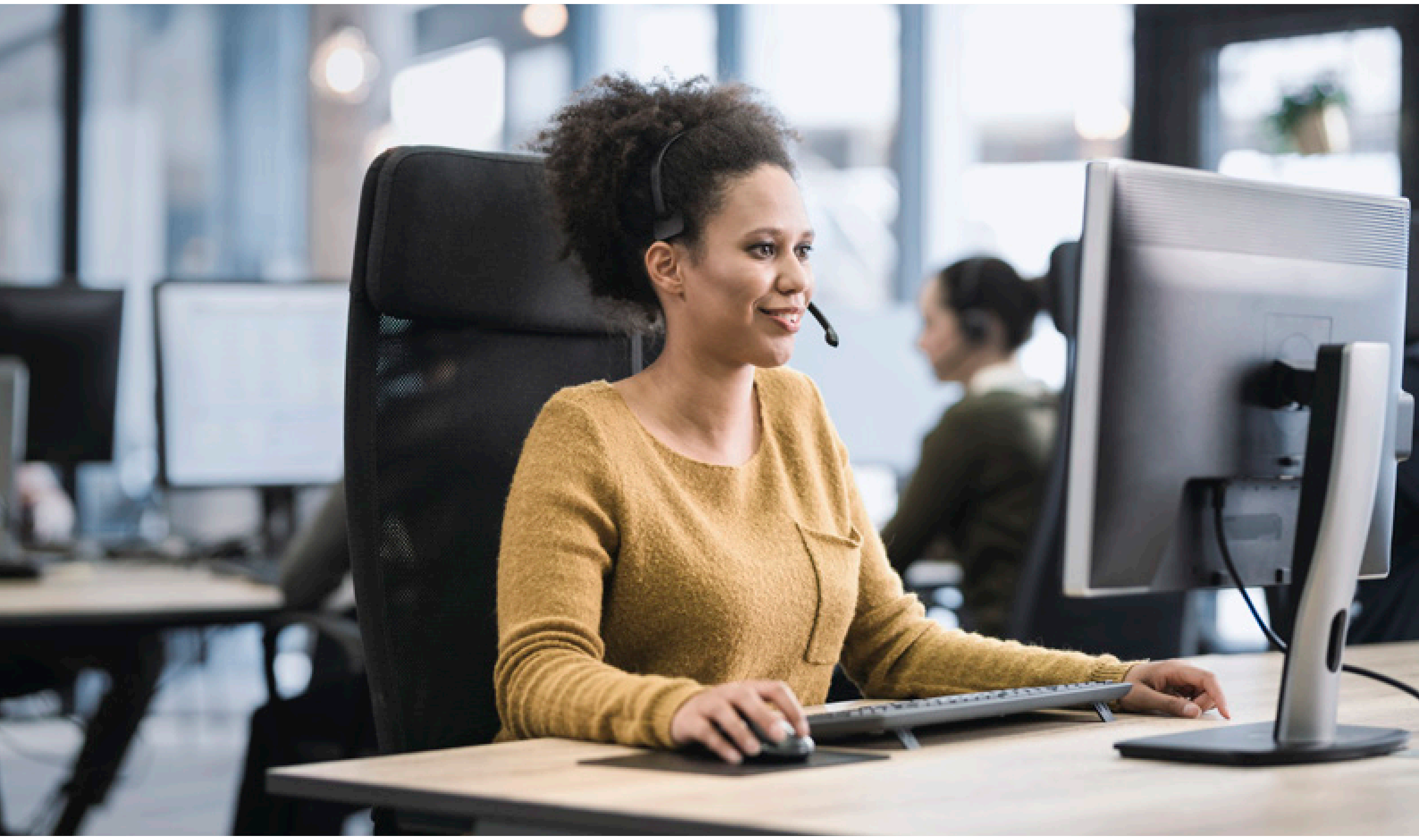

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South Africa has been voted the second most attractive Business Process Outsourcing (BPO) location in the world for three years in a row, based on its reputation as a reliable, cost effective, and high-quality destination for outsourced business services.[1] And the nation's standing as a key BPO player has been reinforced over the last six months. While lockdown measures to contain the coronavirus compromised business continuity across the world, South African contact centres were quick to migrate to remote working models and were able to remain operational with minimal disruption for clients.

Strong operational and service capabilities in the sector are among the reasons that service exports have been identified as an inclusive growth sector in McKinsey's "South Africa Big Five" report. The BPO sector currently employs over 270,000 people in six cities, 65,000 of whom serve international clients. This total staff base could grow to over 775,000 jobs by 2030, with up to two-thirds of these in the service of overseas markets. That trend is already underway: Amazon announced in June that it would be hiring 3,000 people in South Africa this year to support customers in North America and Europe.[2]

If stakeholders act decisively and strategically, the sector can build on its reputation and the resilience it has demonstrated in recent months and position itself for further growth.

The global BPO industry is valued at $163 billion and is expected to grow to $183 billion by 2023

1 The annual 2020 Front Office BPO Omnibus Survey conducted by Ryan Strategic Advisory, ryanadvisory.com.
2 "Amazon to hire 3,000 people in South Africa for customer service roles," Reuters, June 18, 2020, reuters.com.

The South African BPO market still has room to grow

The global BPO industry is valued at $163 billion and is expected to grow to $183 billion by 2023, driven largely by a 7 percent per annum growth rate in the digitisation and automation-fuelled Business Process as a Service (BPaaS) sub-sector.[3] Traditional BPO services, although growing only half as fast, still make up over 70 percent of industry value and are likely to remain the dominant revenue pool over the next three to five years (Exhibit 1).

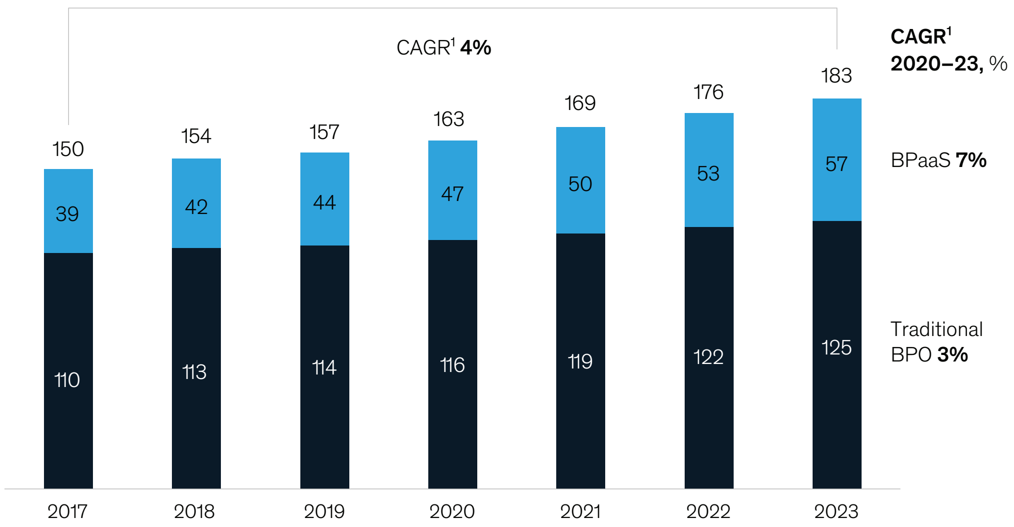
In South Africa, the BPO sector has been a strong performer historically.[4] Over the next three years, we expect it to continue to grow at around 3 percent per annum, in line with global growth rates in the BPO space. The overall South African BPO market is valued at $461 million, $272 million of which is attributed to traditional BPO, while BPaaS is valued at $188 million. Currently there are over 100 local and international BPO providers such as Teleperformance, EXL, WNS, and Webhelp operating in South Africa. Local players typically serve large multinational customers and deliver clear value by driving lower operational costs and increasing the quality and efficiency of business process delivery.

The solid performance of South Africa's BPO sector is due, in part, to the backing it has received from national government. The Department of Trade, Industry and Competition has been instrumental in increasing the number of full-time equivalents (FTEs) servicing international markets through funding of approximately R1.3 billion between 2007 and 2018, with a further R1.2 billion committed in 2019 for sector support and other operational-improvement support programmes going forward. Furthermore, the BPO industry was given essential service status which ensured that local providers could continue to serve their clients during the lockdown. The South African BPO industry body, Business Process Enabling South Africa (BPESA), has also played a key role in aiding the growth of the industry by supporting skills development, sharing best practice, and providing its members with access to other business

Exhibit 1

Traditional BPO services make up over 70 percent of industry value, and are likely to remain the dominant revenue pool over the next three to five years.

Global BPO market growth from 2017 to 2023, $ billion



[1]Compound annual growth rate.
Source: Gartner 2019

[3] BPaaS, a sub-sector of the BPO market, is defined as the delivery of business process outsourcing services that are sourced from the cloud and constructed for multitenancy

[4] Acha Leke et al, "South Africa's big five: Bold priorities for inclusive growth", September 2016, McKinsey Global Institute

networks and associations that drive and influence the sector's transition into the digital economy.[5]

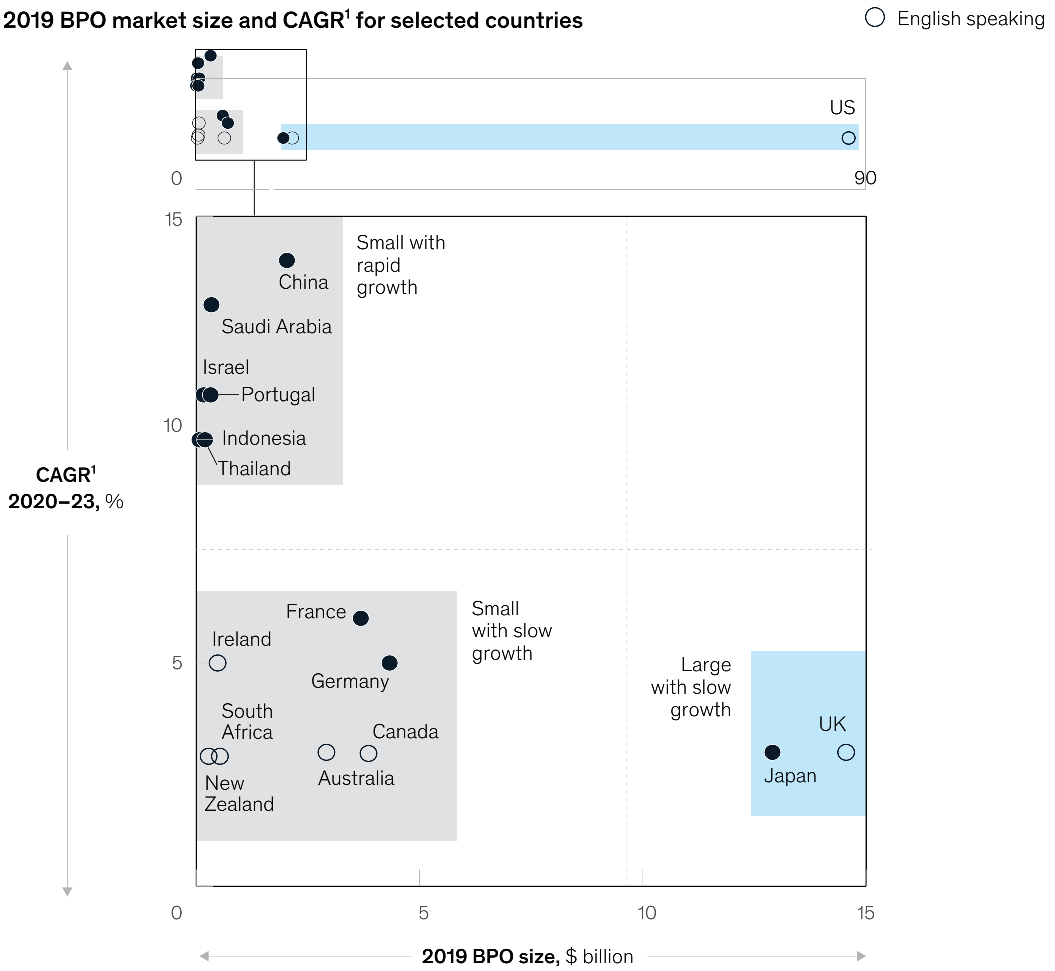
With this support in place and in the context of a growing global industry, our analysis points to the likelihood that the BPO sector in South Africa has not yet realised its full potential. There are two key sources of long-term growth for the industry: scaling services to the international market and aggressively pursuing BPaaS strategies.

Leverage locational advantages to grow international markets

English-speaking countries including the United Kingdom, United States, Canada, Australia, New Zealand and Ireland are key markets for South African BPO providers. Although these countries are experiencing slower growth than many non-English-speaking markets, they still provide a significant opportunity due to the ease of doing business and low regulatory barriers in those countries. South African BPO providers also have experience in serving these markets: 61 percent of existing offshore business comes from the United Kingdom, while the United States and Canada combined drive 18 percent, with another 11 percent coming from Australia. For local BPO players that can tackle the language requirements, non–English-speaking countries like Saudi Arabia, Israel, Thailand, China, Indonesia and Portugal, all provide even more attractive growth prospects—over 10 percent annually—albeit from a lower base (Exhibit 2).

Exhibit 2

English-speaking countries are key markets for South African BPO providers.



[1]Compound annual growth rate.
Source: Gartner 2019

[5] BPESA website, bpesa.org.za.

As a BPO location, South Africa has a number of advantages that can be leveraged to attract new business from international markets.

BPO providers are more cost competitive than their European and American counterparts, with a fully loaded cost base approximately 11 percent below the global average (Exhibit 3). The weakening rand has, at least temporarily, further reduced the dollar-based cost of outsourcing to South Africa, thus enabling South African BPOs to compete more effectively with Asian offerings too.

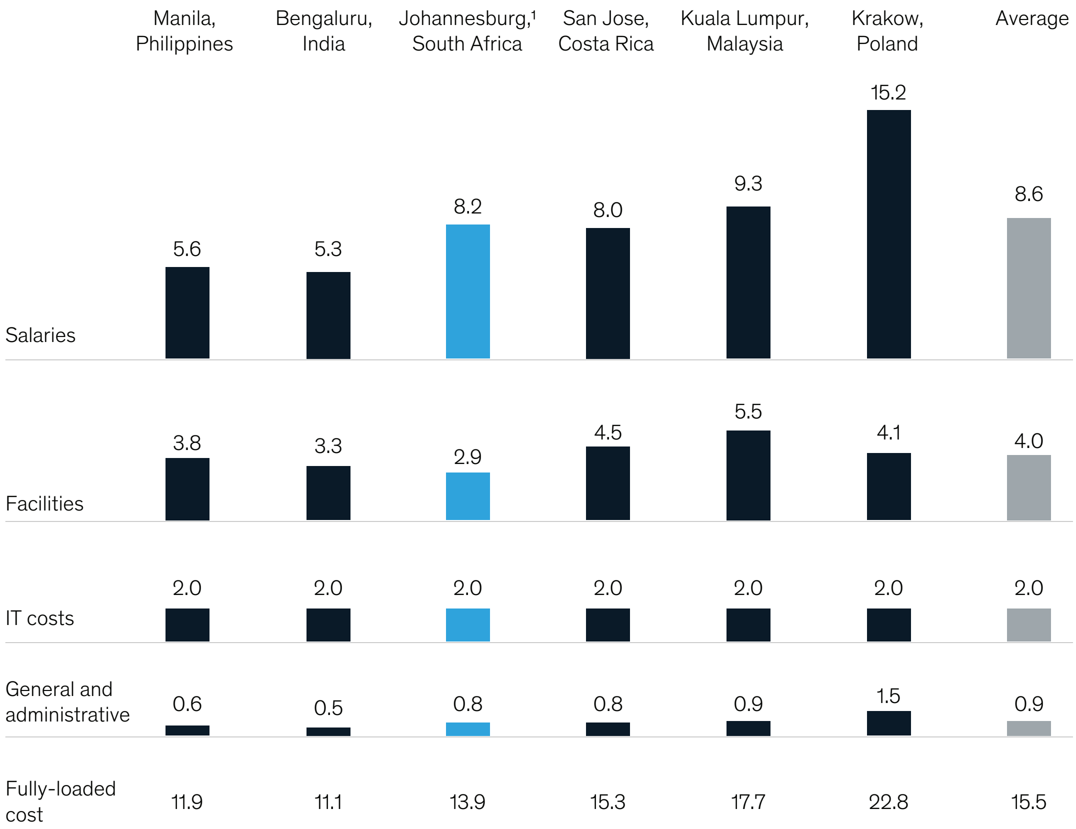
In addition, South African BPO players provide higher-quality services owing to strength across five key areas: availability of skills, infrastructure, risk profile, business environment, and industry size (Exhibit 4). For its international clients, South Africa's English fluency, cultural similarities, and time zone alignment are also advantages.

Operational resilience may be considered an emerging advantage as well, given the sector's performance during the COVID-19 pandemic, relative to lower-cost peer locations. Two South African BPO clients we work with successfully moved 90 percent of their workforce to remote working in just 10 days, whereas key competing locations such as the Philippines and India faced more disruption. In one notable example, 50 percent of operations in the Philippines were disrupted by the COVID-19 crisis and the subsequent government lockdown, leading to one corporation having to notify customers that the enforced quarantine rules had resulted in unplanned disruptions to contact centre

Exhibit 3

BPO providers have a fully loaded cost base approximately 11 percent below the global average.

Fully loaded cost across major BPO locations, $ thousand per agent per year



[1]Cape Town benchmarks hold for Johannesburg location as well.
Source: McKinsey Location Readiness Index (RLI)

Exhibit 4

South African BPO players provide higher-quality services owing to strength across five key areas.

Comparison of enabling environment across key BPO locations, index score (1 is most attractive and 5 is least)

Best / Worst

	Bengaluru, India	Kuala Lumpur, Malaysia	Manila, Phillippines	San Jose, Costa Rica	Krakow, Poland	Johannesburg, South Africa
Talent[1] – voice index	1.85	1.49	1.44	1.45	2.04	2.05
Infrastructure	2.49	2.08	3.08	2.69	2.52	2.41
Risk profile	2.66	2.11	2.78	2.69	2.91	2.61
Environment	3.29	2.65	3.54	3.07	2.98	3.09
Industry size	1.00	3.00	1.00	3.44	3.00	1.00
Primary market served	Australia, UK, and US	Australia, UK, and US	Australia, UK, and US	Americas	Germany, UK	South Africa

[1]Measuring availability and education.
Source: McKinsey Location Readiness Index (RLI)

operations across the country.[6] Similarly, India experienced difficulties with transitioning to remote working due to the lack of availability of hardware such as laptops.[7]

As BPO customers increasingly have to consider risk diversification, South Africa's ability to pivot, when combined with all its other advantages, strongly positions the country as a more attractive destination for BPO services.

Investigate and reimagine three key areas to help make the leap from traditional BPO to BPaaS

While the traditional BPO market will remain a driver of 60 to 70 percent of global value over the short- to medium-term, we anticipate a continued shift towards BPaaS given its advantages in increased data security and consistency, alongside reduced infrastructure and operational costs, all of which lead to more cost-effective scaling. Given that BPaaS players absorb more performance risk from customers, they are able to charge a premium; our analysis indicates typical BPaaS margins are 10 to 25 percentage points higher than traditional BPO.

South African players seeking further advantage could consider the BPaaS space. While the shift does require new technical capabilities such as robust cloud platforms, a BPaaS offering can be appealing, especially for smaller companies—as one CIO told us—as it is not necessary to take on infrastructure costs and allows for quicker evolution of technology.

Our analysis highlights three key areas where BPO providers could rethink their business model and gear up for BPaaS:

1. **Reimagine your offer "as a service".**

   The rise of digital has introduced new possibilities for BPO players to reinvent their traditional offerings using more intelligent workflows and automation, cloud, artificial intelligence and the Internet of Things (IoT). While traditional BPO is all about outsourcing

[6] Simon Sharwood, "Philippines sends all workers home, outsourced call centres for Acer and telcos suffer degraded service" May 18, 2020, The Register. The register.com; Cliff Venzon, "Coronavirus a threat to vital Philippine call centers", April 13, 2020, Nikkei Asian Review. asia.nikkei.com.
[7] Karl Flinders, "Coronavirus: BPO and IT services delivered from India face big challenges", April 6, 2020, ComputerWeekly.com.

human skills and labour, BPaaS is about automating services sourced from the cloud. BPO providers will have to reimagine their core BPO offering to be offered “as a service” leveraging these digital technologies. For example, a BPO provider managing “accounts payable” for its customers could introduce an integrated platform where suppliers upload invoices and the system automates validation and scheduling of payments, all with little-to-no human intervention until final authorisation.

2. **Realign to a service model based on business outcomes instead of transactions.**

   To successfully compete in the BPaaS space, providers need to understand where customers see value in their services and adjust their pricing model to align with that value. Players who align their pricing most closely to the customer's ideas on value are likely to be more successful. Building on the “accounts payable” example, business outcomes which create value for the customer could include reducing customer FTE requirements from 100 to 40, shortening the turnaround time from 15 to four days, and reducing supplier queries as a percentage of invoice volume from 20 percent to 2 percent. The pricing model should then be based on impact delivered, with potential for upside depending on negotiation terms.

3. **Rethink the talent model to enable the BPaaS service offering.**

   In addition to functional expertise aligned to the service offering, BPaaS operations require technical and domain-specific capabilities to service and maintain the BPaaS technology platforms. For example, a traditional BPO provider may require financial and accounting capabilities to deliver an “accounts payable” service whereas a BPaaS provider would need to supplement this with capabilities such as technical architects, data engineers, and data scientists.

BPO providers that act now could sustain their performance and build “next normal” resilience

The BPO industry has significant potential for future growth in South Africa, but it is important that service providers continue to improve on the operational performance metrics of interest to customers. Our analysis has identified six dimensions that are core to performance excellence: stakeholder satisfaction, innovation, sales excellence, productivity and utilisation, cost competitiveness, and scalability (Exhibit 5). Of these, sales excellence and productivity and utilisation would benefit from immediate attention.

Sales Excellence: Optimise sales and go-to-market capabilities

Sales cycles in the BPO industry can take up to 24 months, with resulting contracts typically running for five to seven years. Mid-stream contract transitions are not common practice and it is challenging to create real prospects out of a pipeline, with some leading providers reporting that they are only able to generate interest from 10 percent to 20 percent of leads engaged. Given these realities, it is imperative to refine how the sales teams identifies, engages with, and converts potential clients, while also doubling down on strengthening relationships with existing clients and offering them additional value-adding services. This could include matching stakeholders to appropriate relationship owners, holding periodic ideation sessions with customers to explore additional ways to scale impact, and becoming real thought partners as opposed to an execution engine for tasks.

Exhibit 5

Our analysis has identified six dimensions that are core to performance excellence.

Key operational dimensions for BPO providers

Scalability
Has infrastructure, recruiting and training capability to rapidly ramp up new campaigns and can achieve 2x business growth within 3 to 6 months.

Stakeholder satisfaction
Actively measures customer satisfaction (eg, NPS, CSAT) and consistently performs in the top 20% of possible scores with less than 10% annual customer churn.

Cost competitiveness
Fully loaded costs are below the South Africa benchmark (13.9k USD/FTE/year) and within 15% of the benchmarks for Manila and Bengaluru at 11.9k and 11.1k USD/FTE/year respectively.

Innovation
Innovation is embedded in the organisational DNA with a clearly defined innovation roadmap for the next 12 months that is linked to strategic priorities and supported by a dedicated budget.

Productivity and utilisation
Strong performance across productivity KPIs (eg, average handling time, attrition, average talk time, average speed to answer) with above 80% SLA targets achieved.

Sales excellence
Clear processes are in place to grow existing clients that are identified as priority, and supported by a structured funnel for identifying and converting new leads.

Source: McKinsey

Proactivity is also needed to maintain a healthy sales pipeline. Service providers could employ any of the following ideas to stimulate lead generation:

— Using a network of analysts and brokers to identify leads or contracting “matching companies” in target markets which identify leads and match them with suitable providers.

— Strengthening relationships with industry bodies in target markets.

— Increasing website discoverability and traffic by driving Search Engine Optimisation (SEO).

— Implementing a structured approach to connect high-potential leads with existing satisfied customers either by arranging ‘go-and-see’ visits where prospects can speak to existing customers and hear first-hand about their BPO experience, or sharing real customer experiences via video or written testimonials.

— Investing in free trial periods with priority leads to demonstrate distinctive service levels and reduce the perceived risk of transition.

— Creating demo videos or virtual reality experiences to remotely showcase facilities and capabilities to potential customers.

Productivity and utilisation: Build remote working capabilities and flexibility

As the long-term impact of COVID-19 becomes more evident, it is likely that BPO customers will look to move away from single-region strategies and diversify BPO locations to reduce the risk of service interruptions. Thus, traditional BPO providers that build capabilities to enable rapid deployment and ramp-up of fully functional teams under crisis scenarios may gain an advantage over those that do not.

To build resilience, BPO providers could attend to the following:

Manage work from home (WFH) agents effectively through improving people and process management, implementing security measures to safeguard customer information, and ensuring that staff have suitable facilities and equipment—including ergonomic desks and chairs—at home.

Determine the optimal ratio of remote versus onsite agents based on volumes of call types that are best suited to remote working, evaluate WFH cost structures to determine bottom-line impact, and understand the appetite and ability of staff to work from home.

Implement safety measures throughout the workforce journey to ensure that agents can be brought back on site safely. This might include temperature checks at all entrances, providing sanitisation products, and ensuring social distancing in office space including placing screens between workstations. BPESA has published an extensive set of best practice guidelines regarding health and safety and operational procedures which can be referred to for further detail.

Strengthen the resilience of the operating model by developing the ability to move the workforce to WFH rapidly. This could include conducting workforce cross-skilling and introducing multiple employment formats—full-time, part-time and flexi-time. Providers could also proactively test resilience by checking how quickly remote working can be enforced, even when not required.

If these operational improvements are combined with continued government support, South Africa's BPO sector can maintain and perhaps even exceed its steady growth rate and expand its range of solutions offered to global clients. This will help to create much-needed jobs in the local economy and drive economic recovery beyond the crisis.

Authors and acknowledgements:

Agesan Rajagopaul is a partner in McKinsey & Company, based in Johannesburg where **Tina Runeyi** is an engagement manager and **Rodges Barendse** is an associate. **Chika Ekeji** is an associate partner based in Lagos.

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