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The high-growth opportunity for business process outsourcing in the Middle East

**From back office
to strategy room**



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EXECUTIVE SUMMARY

Business process outsourcing (BPO) providers in the Middle East, particularly in the Gulf Cooperation Council (GCC)¹ countries, have a significant growth opportunity. The industry is changing, and regional demand is taking off. In the past, BPO was a low-margin business focused on cost optimization. Providers operated call centers and offered such back-office services as payroll and invoice processing. Companies are now offering more value-added services, and increasingly sophisticated technologies are automating many traditional BPO functions.

Until recently, the GCC's BPO market was underdeveloped. That is no longer the case. The GCC market is now growing more than 10 percent annually, which is faster than the expected global growth rate.² Greater government outsourcing of public-sector services is behind some of that rising demand. We estimate that the GCC market for BPO services could exceed US\$2billion in 2025, based on our own calculations and data from IDC, which represents significant opportunity for regional players.³

BPO providers in the GCC need to mature and scale up if they are to grow in this market. These firms will need to decrease their focus on cost optimization, and instead seize the chance to offer value-added services. To compete more effectively, regional players need to change their approach substantially, upgrading their technological capabilities, filling the talent gap, and exploiting their knowledge of the regional market. The BPO sector in the GCC can improve public-sector efficiency and delivery, while assisting with more private-sector growth, especially for small and medium-sized enterprises (SMEs).

THE TRANSFORMATION OF BPO

Since its inception in the late 1980s, BPO has enabled companies to reduce costs, improve operational flexibility, and get to market faster. Companies have been able to outsource core back-office functions such as contact centers and payroll. An industry that started out with a few specialized subcontractor companies in India, the Philippines, and elsewhere has since grown into an industry with more than \$261 billion in revenues in 2022, according to Grand View Research, a U.S.-based market research firm.⁴

In recent years, technology has transformed BPO and what BPO providers can offer their clients. BPO companies are moving beyond the purely transactional into more sophisticated, value-added services. Technology has automated some of the traditional tasks performed by BPO providers. Invoice processing, a previously time-consuming manual activity, is one example. Such technologies as optical character recognition and robotic processes now scan invoices, digitize them, and process them faster than humans can.

BPO also has moved from the back office to the strategy room. The development of data analytics and artificial intelligence (AI) means that BPO providers can increasingly generate leads, cross-sell, sell more to existing customers (upsell), and even assist with C-suite recruitment. The employee search process is now faster and cheaper. Technology helps companies recognize, screen, and shortlist candidates in a streamlined and systematic manner. Companies can thus access a larger pool of candidates.

How BPO companies are compensated for their services is also changing. In the past, clients measured BPO firms on a narrow set of performance indicators and paid them through fixed-price contracts. Today, however, incentives between BPO providers and their clients are more closely aligned. Clients are seeking innovative pricing and deal structures. For example, instead of paying for a call center based on the number of staff engaged, the industry is moving toward reimbursing the BPO provider for the value of cross-selling or upselling, or for improved customer retention.

Technology has also enabled new business models and resulted in the emergence of new and smaller BPO players. For instance, startups are able to serve new customer segments such as small and medium-sized enterprises (SMEs) through the cloud by offering them business-process-as-a-service. Several BPO providers now offer software-as-a-service solutions for accounting, human resources, or procurement management. They tailor these solutions to the needs of SME customers with subscription-based pricing that does not require lengthy up-front commitment or investment. These technologies also make BPO providers leaner because they do not need dedicated staff to handle these clients.

THE GCC MARKET FOR BPO SERVICES IS GROWING FAST

The result of the changes described above is increased demand for BPO services. The global BPO market's annual rate of growth was about 6 percent between 2017 and 2021. That is likely to accelerate to a 9.1 percent compound annual growth rate between this year and 2030, according to Grand View Research, with global sector revenues in 2030 forecast at \$525.2 billion.⁵ Growth in the GCC for BPO services will be even faster. We estimate, based on our own calculations and data from IDC, that the GCC's BPO market will grow by a compound average of 10.5 percent per annum to 2025—making it worth \$2.1 billion in 2025 (compared with \$1.4 billion in 2021).⁶

Several region-specific factors are fueling GCC demand. GCC governments are seeking more private-sector participation in the provision of public services to fulfill such policy objectives as improving skills and increasing employment of nationals. In Saudi Arabia, for example, the Ministry of Communications and Information Technology has launched an initiative to subsidize the salaries of nationals employed in the private sector for an initial period of one to two years, with the goal of raising skill levels and boosting employment in the country's Tier Two and Tier Three cities.

GCC governments are also privatizing some government services, which creates demand for BPO services. For example, Saudi Arabia is looking to privatize a number of government assets and services to enhance the quality and efficiency of public services in certain sectors as part of its Saudi Vision 2030 development program.⁷ The government has more than 100 privatization initiatives that cut across the areas covered by 10 ministries. In the United Arab Emirates, Mubadala has long operated a joint venture with Electronic Data Systems known as Injazat Data Systems to provide BPO services and make government services more efficient.



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BPO support is also necessary for the specialized entities that governments are creating to fulfill specific public-sector mandates. These new entities often do not have well-established procurement, human resources, finance, or other support functions. They also rely on third parties to jump-start their capability building. One example is Monsha'at, the Small and Medium Enterprises General Authority. The Saudi Arabian government created Monsha'at to help SMEs access the financing that they generally cannot obtain from traditional financial-services providers. Monsha'at is relying on third parties to provide its support functions while it focuses on core activities. Another example is the BPO support that will be required for the 30 companies being created by the Public Investment Fund, Saudi Arabia's sovereign wealth fund. The companies are part of an "investment pivot" to boost private-sector activity in 13 sectors including construction, financial services, entertainment and leisure, and aerospace and defense.

Also increasing demand for BPO services is the promotion of SME and startup activity, along with the regulatory push for greater localization. Larger SMEs will need help with support functions as they expand. There is a strong case for such companies to start outsourcing non-core activities as soon as possible so that they can focus on growth. An energized BPO sector in the GCC could increase public-sector efficiency and lead to more private-sector growth, particularly for SMEs.

The push to employ more nationals is also fueling the BPO market. It is often easier for organizations to outsource certain processes than seek to acquire scarce talent because nationals with the correct skill sets are sometimes in short supply. For example, the Ministry of Labor in Saudi Arabia is requiring the "Saudization" of some functions, which has led to increased outsourcing to Saudi-based BPO providers. BPO is also an opportunity for women to find work, which is important as Saudi Arabia seeks to encourage female participation in the workforce.⁸

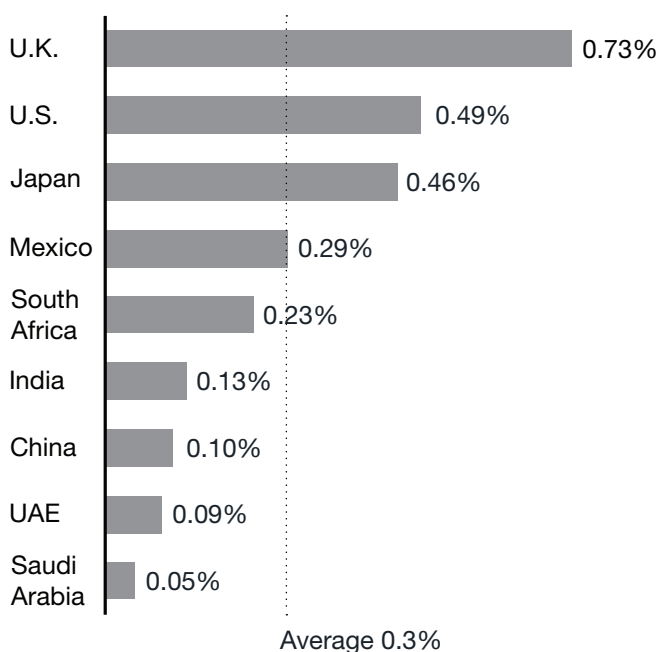
THE STATE OF BPO IN THE GCC

The BPO industry in the GCC is small by global standards, is traditional in its offerings and charging models, and lacks the necessary technological capabilities to offer new, higher-value-added services. BPO revenues in the GCC countries are equivalent to around 0.1 percent of GDP, compared with 0.4 percent in more developed markets (see *Exhibit 1*).⁹

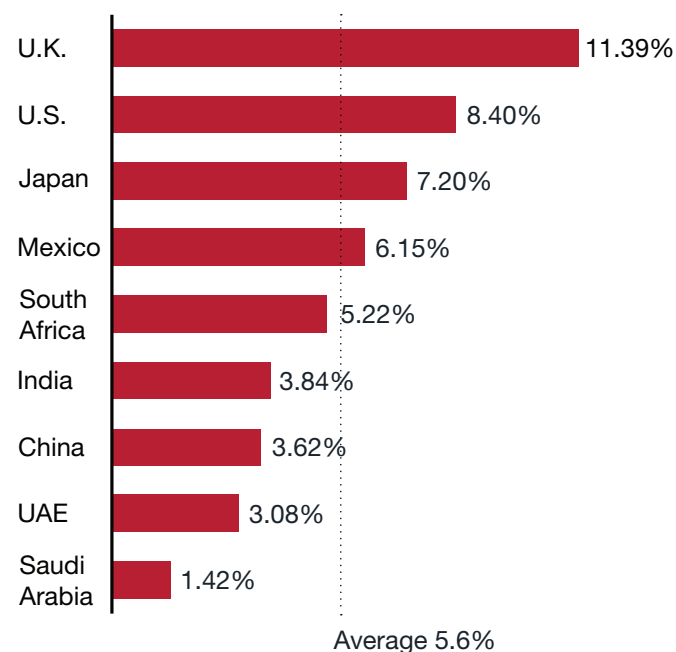
GCC BPO players tend to focus on traditional back-end services. Using old pricing models, they offer a limited range of services and niche segments, rather than competing head-on with international players that offer a breadth of end-to-end services. To seize the BPO opportunities, the region's providers need considerable growth and investment in technology. BPO providers also need to find the tech talent necessary to deliver high-value-added services. Currently, we estimate that the region employs just 50,000 to 70,000 professionals in BPO, which we believe can double in the next three to five years to meet growing demand.

EXHIBIT 1
The BPO market in the GCC is underdeveloped

BPO market revenue, % of GDP (2021)



BPO market revenue, % of ICT sales (2021)



Note: UAE = United Arab Emirates.

Source: World Bank; Statista "Business Process Outsourcing-Worldwide" (<https://www.statista.com/outlook/tmo/it-services/business-process-outsourcing/worldwide>); Strategy& analysis

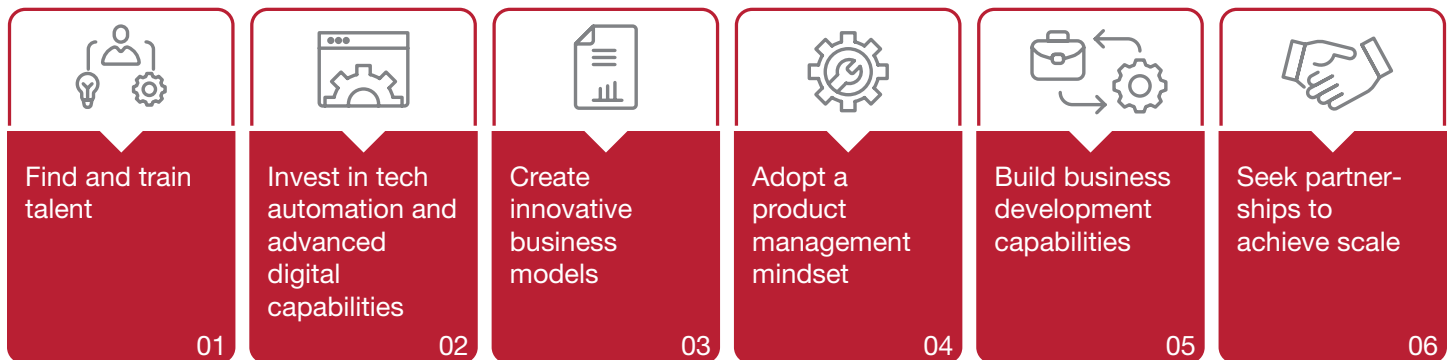
SIX INITIATIVES FOR BPO GROWTH

The region's BPO providers need to take six initiatives in order to capture GCC market opportunities (see *Exhibit 2*). Each initiative requires action in multiple areas to position BPO providers for success:

- Find and train talent
- Invest in tech automation and advanced digital capabilities
- Create innovative business models
- Adopt a product management mindset
- Build business development capabilities
- Seek partnerships to achieve scale

EXHIBIT 2 Six initiatives for BPO growth

Key actions



Source: Strategy&



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Find and train talent

The new nature of BPO demands a more skilled workforce with particular aptitudes. The risk is that the regional talent shortage in the GCC could hamper growth. BPO providers and stakeholders must invest in building and maintaining a talent pool and pipeline to overcome this talent challenge. For BPO providers, this means more focus on training of existing workers, on external hiring, and on a value proposition that retains top performers.

Training

BPO providers need to train their workforces and increase skill levels. Companies can improve the skills of employees by rotating them through multiple functions and capabilities so they gain exposure to the changing nature of BPO services. They can also retrain employees for newly required skills, and use partnerships with educational institutions offering the relevant courses.

External hiring

BPO providers need to hire externally if new capabilities such as advanced technological skills are required, or when training the existing workforce is difficult. Sometimes, BPO providers have to hire senior functional experts from outside the industry. One way to source new talent is to certify training programs in partnership with educational institutions and training providers. Such programs, along with educational partnerships, can provide a pipeline of new talent.

Talent retention

BPO providers will have to hold on to their best employees if they are to institutionalize new processes and higher-value-added services. They must present robust support for top performers and an attractive value proposition. Companies can review their performance management framework to ensure they offer adequate incentives for high performers. They can also use mentorship programs, and chart out faster career progression for staff who excel.

Invest in tech automation and advanced digital capabilities

To keep pace with their competitors, BPO providers in the GCC should raise their investment in building digital capabilities and integrate technologies such as AI, data analytics, and cloud capabilities into their daily activities. Technology adoption is a critical factor in enabling new value-added services, capturing new customer segments, and delivering an enhanced customer experience.

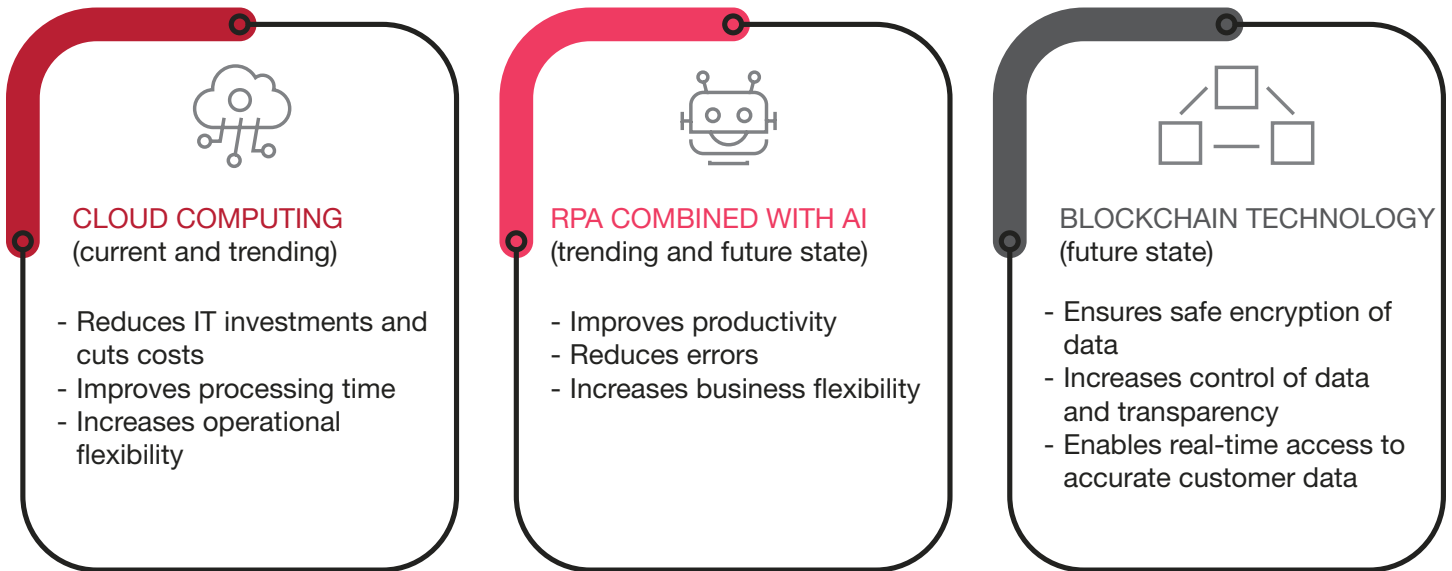
In the traditional model, BPO providers used macros and scripts to automate repeatable structured processes through rule-based automation in a specific application. They used business process automation and robotic process automation (RPA) to make workflows efficient and minimize costs by integrating software and restructuring labor.

In the future, however, BPO providers have three potential opportunities: switching to cloud-based delivery models, adopting RPA and AI, and using blockchain (see *Exhibit 3*).

EXHIBIT 3

BPO service providers are increasingly investing in technology automation and advanced digital capabilities

Advantages of adoption of tech and digital capabilities



Note: AI = artificial intelligence, RPA = robotic process automation.
Source: Strategy&

Cloud-based delivery models

Cloud-based delivery allows BPO service providers to offer on-demand or needs-based infrastructure to their customers. It also significantly reduces the IT investments demanded of BPO providers. BPO players can use cloud computing to reduce processing time for data-intensive business processes. Several providers globally and in the GCC are offering cloud-based call center solutions to their customers as an alternative to on-site call center installation. For BPO providers, the result is a shift in costs from capital expenditure to operating expenditure. This approach also allows for faster deployment, frequent updates, higher reliability, flexibility in terms of capacity and payments, and location independence.

Cloud-based delivery does pose some challenges. BPO providers will have to engage with data sovereignty, which impedes growth and adds to costs by demanding the storage of data in-country. Providers must master the region's complex data privacy laws. They should also push for regulatory and legislative frameworks that will enable the sector's growth.

Adopting RPA and AI

BPO providers are using automation via RPA and AI to replace manual tasks and improve productivity. Advantages include fewer errors and less need for staff. One leading BPO and knowledge process outsourcing provider in the GCC recently used automation and RPA to identify staff qualified to handle certain billable client projects. The automated solution enabled the BPO provider to respond to client requests five times as fast as it could using a manual process. Previously this process was done by hand and required searches of about 2,500 staff records with details of which staff were available, or already assigned, and their qualifications and capabilities.

Using blockchain

Blockchain is a distributed ledger technology that safely encrypts data. Although the BPO sector is only starting to use blockchain, some technology players are offering blockchain-driven customer interaction services to BPO companies. Such services ensure that customer data is stored in an encrypted and secure manner. The use of blockchain can contribute to improved cybersecurity practices.

Create innovative business models

BPO providers need to come up with new, flexible business models to accommodate changing customer expectations and their own ability to deliver value-added services at a higher level. The BPO industry and its customers are finding the “cost-plus” model that was focused on cost efficiencies less attractive. New approaches examine the opportunities that come from customer life-cycle management. For example, customers increasingly prefer to link part of the pricing for outbound call centers to metrics that relate to the benefits delivered, such as new sales or lead generation. Leading providers are offering outcome-based models and revenue-sharing agreements.

BPO providers in the GCC need to adopt these new models. To do so, they have a range of possibilities to test and implement them. On the management front, providers can create a team focused on pricing, solutions, offer design, and bid management—including hiring experts who are experienced in structuring new business models—that will propose new models. On the operational front, BPO providers can adjust their internal processes to implement revenue recognition and reporting for new business models. On the customer front, they can educate clients on the benefits and advantages of different business models and pilot new approaches with selected customers.

Adopt a product management mindset

BPO providers in the GCC need to think about how they can evaluate their offerings continuously, rather than stick to a fixed menu. Such a product management mindset is vital for BPO providers that want to stay relevant and differentiate themselves. They need to redesign their product and service portfolio regularly in order to serve changing customer requirements through innovative products and services.

For example, within customer life-cycle management, there has been a shift from single channel (voice calls) to multichannel customer management. To achieve this, BPO companies are provisioning a single solution or platform that integrates and enables the management of all points of customer interaction across channels such as voice calls, text, email, and social media. Future changes could include adding AI-enabled digital modes of communication to traditional voice and interactive voice response methods, providing a richer and more efficient customer experience.

Build business development capabilities

BPO providers should invest in business development capabilities so that they can educate the regional market on the new, higher-value-added outsourcing. Although the growing number of SMEs and startups provides new potential customers, BPO companies still need to convince these businesses of the value of their services. BPO providers therefore should invest in business development capabilities such as consultative selling, which involves providing advice and guidance to customers.

Seek partnerships to achieve scale

BPO providers need partnerships to scale up so that they have the resources to invest in advanced capabilities and provide advanced services. The GCC's BPO industry is too small to achieve the scale required in the near future through organic growth. BPO providers have a number of options. They could build go-to-market partnerships with large telecom players to take their offerings to a much larger base of customers. They could establish a presence through digital channels as a means of increasing reach with minimal in-person contact. They could also use third-party resellers to reach SMEs and other smaller customers. BPO providers could also use partnerships to improve delivery effectiveness and efficiency. For example, BPO providers could automate tasks in the short term by partnering with RPA companies. Over the long term, BPO providers could develop more in-house capabilities.

CONCLUSION

BPO providers in the GCC region have an important opportunity ahead of them. They are in an industry that is transforming and in a region with rapidly rising demand for their services. Although the GCC's BPO industry is smaller than it should be, industry leaders can reach the necessary scale by investing in technology and talent, elaborating new business models, and changing their mindset to develop business and form vital partnerships. As the GCC economies grow and become more sophisticated, so can the region's BPO industry.

ENDNOTES

1. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
2. Statista forecasts the global growth rate at 6.69 percent average for 2022 to 2027 (<https://www.statista.com/outlook/tmo/it-services/business-process-outsourcing/worldwide>). The GCC figure is a Strategy& estimate based on its analysis of GCC markets and using the Saudi Arabia figure from Mufasir Yousuf and Mohammed Azim Ansari, “Saudi Arabia IT Services Market Forecast, 2021–2026,” IDC, July 2022 – Market Forecast – Doc # META47720022 (<https://www.idc.com/getdoc.jsp?containerId=META47720022>). Please note that IDC is not associated with the Strategy& forecasts in this paper.
3. Strategy& analysis and Alison Close, “Worldwide and U.S. Business Process Outsourcing Services Forecast, 2021–2025,” IDC, May 2021 – Market Forecast – Doc # US46369221 (<https://www.idc.com/getdoc.jsp?containerId=US46369221>).
4. Grand View Research, “Business Process Outsourcing Market Size, Share & Trends Analysis Report by Service Type (Customer Services, Finance & Accounting), by End-Use (IT & Telecommunication, BFSI), by Region, and Segment Forecasts, 2022–2030,” Report ID: GVR-2-68038-484-0 (<https://www.grandviewresearch.com/industry-analysis/business-process-outsourcing-bpo-market>).
5. Ibid.
6. Strategy& analysis and Alison Close, “Worldwide and U.S. Business Process Outsourcing Services Forecast, 2021–2025,” IDC, May 2021 – Market Forecast – Doc # US46369221 (<https://www.idc.com/getdoc.jsp?containerId=US46369221>).
7. Saudi Vision 2030 (<https://www.vision2030.gov.sa/v2030/vrps/privatization/>), Privatization Program (Delivery Plan 2020), A Saudi Vision 2030 Realization Program (https://www.ncp.gov.sa/en/MediaCenter/News/Documents/Privatization%20Delivery%20Plan%20_ENG.pdf).
8. “TCS takes full control of all-women BPO center in Riyadh,” consultancy-me.com, February 5, 2021 (<https://www.consultancy-me.com/news/3357/tcs-takes-full-control-of-all-women-bpo-center-in-riyadh>).
9. Strategy& analysis and the World Bank, Statista “Business Process Outsourcing – Worldwide” (<https://www.statista.com/outlook/tmo/it-services/business-process-outsourcing/worldwide>); Mufasir Yousuf and Mohammed Azim Ansari, “Saudi Arabia IT Services Market Forecast, 2021–2026,” IDC, July 2022 – Market Forecast – Doc # META47720022 (<https://www.idc.com/getdoc.jsp?containerId=META47720022>); Alison Close, “Worldwide and U.S. Business Process Outsourcing Services Forecast, 2021–2025,” IDC, May 2021 – Market Forecast – Doc # US46369221 (<https://www.idc.com/getdoc.jsp?containerId=US46369221>).

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