

clearthought

Client Support and Customer Services

Driven by the demand for high quality, high tech services the industry is going through huge transformation

Strategic partners

The outsourced client support and customer service industry is going through a period of great change as it moves from providing low cost offshore services towards higher quality, higher tech onshore solutions. As part of this move clients are also demanding ever higher levels of personal customer service that align with their brands, with providers very much seen as strategic partners with specialised knowledge of particular sectors.

Key market trends

- The demand for talent has increased with the demand for higher service levels. For instance, companies which can provide multilingual services with higher levels of expertise have a competitive advantage in the market.
- Outsourcing companies are moving to different channels of communication, driven by multi-channel and mobile. These digital technologies are a particularly high growth area of the market.
- The M&A market is very strong with new entrants emerging. Private equity are strong buyers in the market and have won the race to acquire large companies with high valuations, driven by the willingness of banks to fund large transactions. Strategic buyers are also looking for scale, geographic presence and new capabilities.
- Although the market is still dominated by big players, it remains highly fragmented with a large number of SMEs in the space.



Market growth

The market is growing strongly to match end user expectations of high levels of customer experience, excellent product knowledge, service in their own language, and multi-channel customer service lines.

In 2014 the market was estimated¹ to be worth \$63bn (€56bn) and is expected to rise to \$85bn (€76bn) by 2020. One of the major drivers of growth will be customer service that provides interaction through mobile and multi-channel services. For instance, chat automation has become much more advanced with end users now beginning to migrate to these alternative channels, fuelling increased demand.

Digital driver

The emergence of social media and big data will also be a large contributor to industry growth and competition.

The customer interactive service segment – consisting of communication across various channels such as email, instant messaging, telephone, social media and text messages – is expected¹ to grow strongly at a CAGR of 5.5% to 2020 and beyond, exceeding \$68bn (€61bn) by 2020 as mobile connectivity becomes more prevalent.

¹ Radiant Insights



Market overview

The industry is being driven by a number of key developments:

Business Process Improvements

Business Process Improvements (BPI) have been important to the sector and are being driven by the shift in end user demands. Companies can no longer offshore their customer service function to an anonymous provider who gives a standard service. Companies need their outsourced customer service function to be tailored to their particular business while ensuring that there are tangible improvements to the speed, cost and quality of service.

Quality customer service

Over the past decade companies have begun to view their outsourced client support provider as a strategic partner that aids them in executing their strategic vision, and as a brand ambassador.

Quality customer service does not only include customer interactions over the phone but integration across all channels. As multi-channel sources of customer interaction have improved, this has driven growth in these alternative areas.

A report from Aberdeen Group suggests that contact channels other than phone for customer service now account for more than 30% of interaction with customers. It also reports that businesses which have been using these alternative channels are recording more than double year-on-year improvements in customer satisfaction. This is a large contributor to the growth

in the live and social media customer care sector and gives end customers a faster and better experience.

Talent

Due to the increase in service quality, there has been a parallel rise in demand for talent. End users are increasingly expecting service agents to speak their native language and have specialist expertise in their area. Customer support service providers which have multilingual agents, and those with expertise in their field, hold a competitive advantage in the market. Industry players are focusing on ensuring customer loyalty and retention in order to sustain profit margins.

Specialisation

Providers which concentrate on a particular industry are well placed to deliver a quality, differentiated service. Such specialisation results in better alignment with service providers and their brand, and higher levels of service to end users.

Specialist service providers are also better placed to deal with common challenges faced by their clients trying to deliver faster solutions and better quality end user engagements.

Vendors which don't have the required industry expertise face a number of risks. If a service provider does not know their market or the common challenges their customers face, there is the risk of the end user being dissatisfied resulting in lost time, money and brand goodwill.

Risks

There can be pressure on providers due to rising costs and tighter margins such as from higher wage costs or inflation. However, these margin pressures can be offset by revenue growth achieved by delivering high quality and differentiated services.

For instance, in the UK there has been a sustained period of employment growth in the business services sector, indicating a significant skills shortage. The Brexit vote, coupled with the growing global mobilisation of workers, means that UK companies in particular will come under pressure regards employee costs. Competition for talent will also contribute to further wage pressures. Cost control measures and economies of scale through acquisition can help companies mitigate these cost risks.



Country focus

Ireland

Ireland's position as a low tax, business friendly, open economy with a highly skilled workforce has underpinned domestic and foreign investment in the growing BPO and outsourced customer service industry. The Irish market has seen the development of numerous large scale national and international operations in regional locations, where operators can capitalise on a lower cost base in comparison to the greater Dublin region. The BPO industry in Ireland is estimated¹ to be worth approximately €1bn and is forecast to grow at a CAGR of 5% for the next number of years.

Recent deals include Capita's acquisition of SouthWestern Business Process Services from Ion Equity and private equity group Carlyle Cardinal acquiring Abtran, one of Ireland's largest providers of customer and business process management services.

Spain

Motivation for Spanish companies to outsource certain services has changed in recent years with clients increasingly valuing the importance of outsourcing as a lever of change and company transformation. Cost reduction continues to be an important consideration for companies but it has lost ground against other factors such as productivity, innovation and quality in change management, in line with the broader global market.

In general, non-financial factors have gained importance, indicating that the market has reached a level of maturity and that suppliers have achieved a higher level of confidence in their ability to support growth and contribute to business transformation.

UK

The UK is one of the most mature markets for outsourced services. Despite the relative high cost base, vendors are attracted to the market because it offers a highly trained workforce, a supportive government, high levels of service and a geography which can often be used as a gateway to mainland Europe.

Furthermore, UK clients are increasingly demanding a local service where the culture and ethos match their values. This has resulted in a number of large corporates reshoring captive call centres,



but has also stimulated high levels of M&A activity with large international players acquiring a UK-based platform or building sector specific solutions.

Most recently, Japan-based Outsourcing Inc. purchased Liberata, a provider of BPO and on-demand, digital and transaction services to the public sector. This deal followed that of Indian IT services group Tech Mahindra, which purchased Target Group, a UK BPO and software provider to financial institutions, for an enterprise value of €130m.

Portugal

The €510m call centre market has been growing by over 10% per year², in contrast to the unfavourable economic conditions in Portugal in recent years. The sector's growth is fuelled by the customer support segment (62% of the market), followed by sales services (21%), technical support services (7.5%) and collection management services (7%). The financial and telecoms industries are the main clients in the sector, although other business sectors are gaining in importance.

Portugal is considered one of the top nearshore destinations for IT services and international call centres. Lower labour costs relative to other European countries,

high education levels, multilingual skills, and the cultural proximity with the rest of Europe and other countries (such as Portuguese-speaking countries like Brazil) create a strong base for the development of nearshoring services.

India

The Indian outsourced customer services and support industry is expected to surpass €10bn in 2016. Leading players are increasingly providing high value services involving customer analytics and are becoming strategic partners for clients. In particular, vertical models are replacing horizontal service driven models, and companies are focusing on offering multi-channel services via mobile and chat facilities to retain customer loyalty and stay profitable.

Capability augmentation is leading to consolidation in the space with both private equity houses and large strategic players making significant acquisitions. For instance, Synnex Corporation acquired Minacs BPO for €376m to expand its digital capabilities and strengthen its footprint in the fast growing tier two and three Indian cities. Another deal saw Blackstone buy back Intelenet Global Services for €345m.

¹ Capita Annual Report 2014

² Informa DBK

Case study: Voxpro



With its multi-coloured furniture, quirky pod meeting rooms and garden allotments, Voxpro bears all the hallmarks of a classic Silicon Valley start-up.

But instead this is Cork where husband and wife Dan and Linda Kiely first founded the Irish outsourcing specialist in 2002. Since then the business has gone from strength to strength, building a global operation in response to client needs.

Managing Director Aidan O'Shea (pictured) says the company does not particularly focus on any one sector, although given the environment of its head office it comes as little surprise that it deals with a lot of technology companies, borne out of its long-standing relationship with Google. Voxpro originally sold pagers to Google staff, and today sells a range of enterprise solutions for Google for Work.

Says O'Shea: "I personally have been here a couple of years and was really attracted to the fact that the business had a global view and especially that Google was one of the company's main clients. I could see the potential of using that as a calling card to attract new business."

He says that Voxpro is not competing with the large outsourcers and this plays to the company's advantage. "Global brands like Google need their partners to be flexible, nimble and entrepreneurial, which is precisely in our DNA."

Fintech could also be a strong sector for Voxpro. "Companies in the sector are young and disruptive and like what we do."



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Airbnb

Another major partner is the fast-growing online accommodation provider Airbnb. O'Shea insists it is not just about "sorting out problems" for their partner. "We are the first touch point with the consumer and provide a range of customer management services while also covering areas such as risk analysis, fraud protection, and household verification services. Consumers need to trust that the service they are getting is going to be the best."

He says Airbnb simply wouldn't have been able to grow as fast as it has without such support. "When the company first came to us their business was rolling out across Europe and they had a simple choice. They had to ask themselves: 'Is this our area of expertise or shall we outsource it to someone else?' Ultimately the company is an experience business, a travel business. It is not in the business of doing the kinds of things that we do. The company is scaling globally and very quickly and doesn't have the time, resources and knowledge to set up these operations by itself. It has to focus on its core business and managing its partners effectively."

Expansion

The US remains a big focus for Voxpro which now has three offices there having just opened its latest base in Georgia. "It is probably a bigger opportunity for us than Europe," adds O'Shea. "We serve a lot of US companies moving to Europe which are scaling up fast. We are good at what we do and clients like what we do, so word spreads and people get to hear about us. We have a very good reputation over there. Going to the US was a big jump for us, but it was a well calculated jump."

There are also plans to venture into South America, while additional offices across Europe are in the pipeline. "The challenge for us is the sheer number of opportunities that we have and working out which to go for," admits O'Shea.

Such expansion will inevitably require new financing and he is open-minded on the options. A flotation has previously been mooted, but a private equity deal could come first. "We have aggressive growth plans which will require financing so private equity is an obvious consideration for us," he adds.



M&A activity

Transaction multiples in the BPO and the outsourced customer care sector are highly dependent on the scale of the business, niche focus and degree of technology enablement.

Typically, for sub €200m deals involving customer contact management centres, we are seeing EBITDA multiples ranging from 5.5-7.5x. However, for businesses with scale, tech-enabled solutions, market-leading positions and broad geographic profiles that stretch across continents, EBITDA multiples often exceed 10x.

Companies providing vertical specific solutions, or operating in emerging sub-sectors of the BPO market such as client support services, are attractive targets to incumbents looking to deliver end-to-end vertical solutions and move up the value chain.

These companies are often being acquired at close to double-digit multiples, as a scarcity of available assets, an overhang of private equity funds and strong trade balance sheets drive up valuations.



Meanwhile, cross-border transaction levels in the client support services sector and outsourced customer care sub-sector continue to remain high. Leading providers are turning to M&A to acquire onshore assets as clients increasingly seek providers who understand local culture, possess specific market knowledge and operate in the same time zone.

Private equity

The market has all the hallmarks of an attractive industry for PE such as long term contracts, strong visibility of earnings, an asset light model, strong cash conversion and positive industry trends. Indeed, PE groups are now winning the race for some of the largest assets in the outsourced customer service and BPO sectors, driven by banks being happy to help fund large transactions.

Investors also see strong opportunities to scale businesses through targeted acquisitions that often leverage technology.

Typically, PE exits have either come in the form of secondary buyouts by larger funds or trade consolidators looking to take advantage of favourable market dynamics such as Capita, Europlan and Kleinwort Benson.

Outlook

The market will continue to be driven globally by the demand for higher quality, specialised customer service solutions. Companies which can provide this will have a significant competitive advantage in the market and will attract interest from both PE and strategic investors.

Selected recent deals

- PE firm Vespa Capital backed the re-capitalisation of Chase Search and Selection, a specialist in recruitment services to the pharmaceutical, biotech and healthcare industries. Clearwater International advised Chase Search and Selection Limited on the deal.
- Convergys Corporation acquired buw, Germany's largest independent BPO provider. Convergys is looking to expand its presence in the growing €3bn German outsourced customer management services market.
- Liberata, a business process outsourcing provider to local government agencies, was sold by PE house Endless to Japanese-listed company Outsourcing Inc.
- CVC Capital Partners acquired an 80% stake in SPi Global Holdings Inc, a provider of voice and non-voice services in the areas of knowledge process outsourcing and customer relationship management. CVC has since funded the purchase of China-based Bachieve International.
- Thomas Cook is handing over 3,000 hotel contracts to Australian online travel agent Webjet as part of an outsourcing deal. Webjet's European subsidiary Sunhotels will assume control of contracting and sourcing hotels for the company's complementary business.

Conclusion

The disruptive forces transforming a host of consumer and business markets are having a huge impact on the global outsourcing model. The heady mix of fast-moving technology and changing consumer expectations means companies need their outsourced customer service function to be flexible, nimble and entrepreneurial, overlaid with outstanding quality of service.

Against this backdrop a fragmented market is also ripe for further consolidation, and we expect to see continued strong M&A activity across the sector going into 2017.

Deal highlights

Some of our recent deals

CEL Procurement

Procurement services provider for public sector organisations

Clearwater International advised LDC on its investment in the business

Kindertons

Provider of accident management services

Clearwater International advised Sovereign Capital on its acquisition of Kindertons

Direct Group

Outsourced insurance services provider

Clearwater International advised LDC on the sale of Direct Group to Ryan Specialty Group

mediafinanz

Leading debt and risk management company

Clearwater International advised shareholders on the sale of mediafinanz AG to Tesch Inkasso GmbH

Reward Gateway

UK market leader in flexible employee benefit programmes

Clearwater International advised the company on its buyout with investment from Inflexion Private Equity

Emergia Contact Centre

Spanish contact centre engaged in the design, launch, and operation of contact centre-related projects

Clearwater International advised Emergia on a capital raise

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