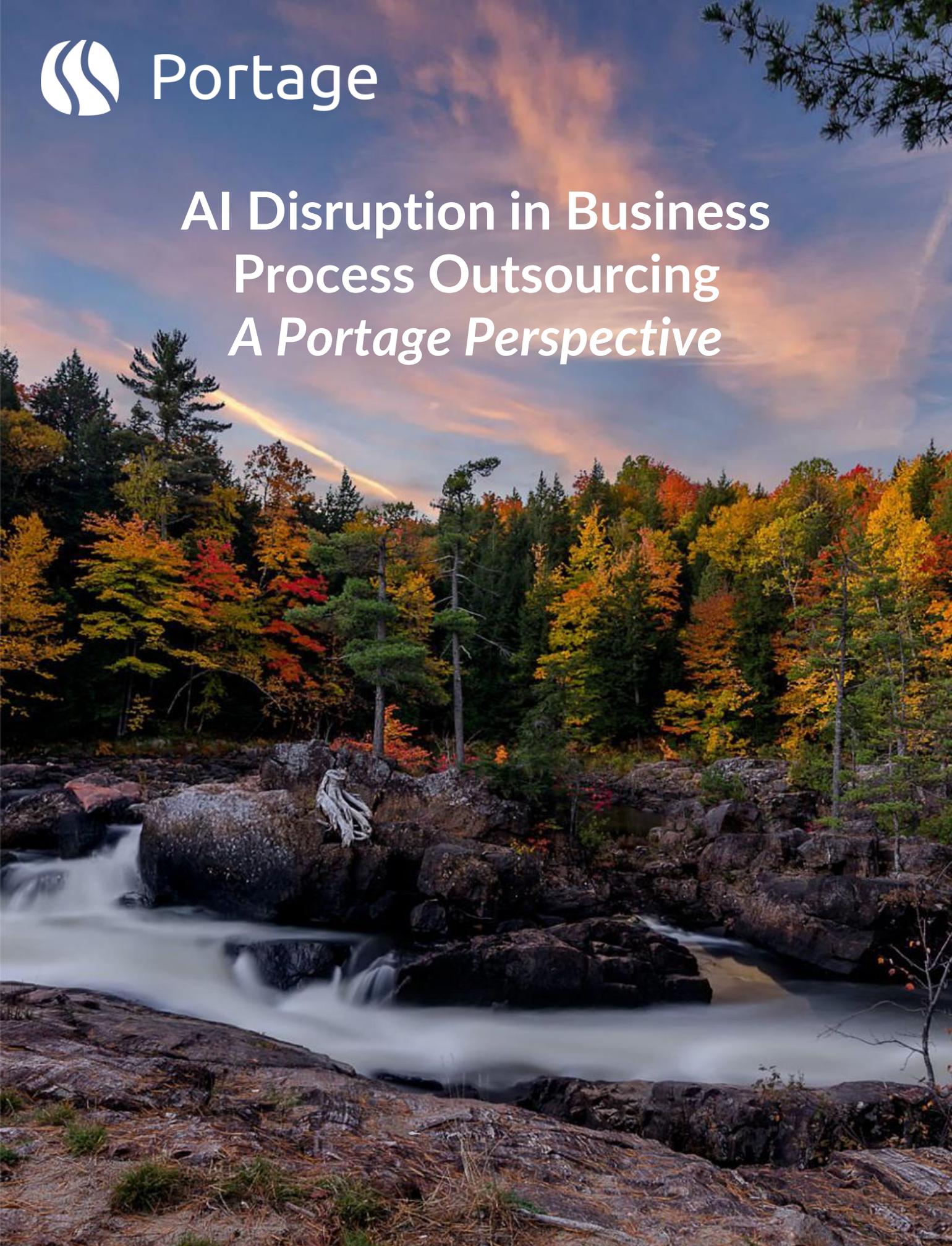




Portage

AI Disruption in Business Process Outsourcing *A Portage Perspective*



AI Disruption in Business Process Outsourcing: A Portage Perspective

Introduction: An Inflection Point for BPO

The goal of business process outsourcing (BPO) has always been to empower companies to focus on core operations, realise efficiencies and reduce costs by contracting out specific business tasks to third-party service providers. For years, BPOs largely functioned as providers of cheap labour capacity, and the economics of outsourcing relied on labour cost arbitrage, where services providers farmed out repetitive or non-core business tasks to workforces in lower-cost jurisdictions. Yet today, with technological advancements in artificial intelligence (AI), the ground has shifted. In customer service, it is estimated that 80% of operations embed generative AI in agent processes, up from just five per cent three years ago.¹

We spoke to dozens of vendors, operators and AI-forward technology startups to better understand the forces behind this transformation. While AI may be the catalyst, it is joining with complementary secular trends in buyer expectations and global economics. Among BPOs, there is a real sense of urgency to fast-track AI adoption and establish themselves as value-added partners, rather than mere suppliers, for their customers. In our view, this paradigm shift in the conventional BPO model should present opportunities to invest in either AI-enabled BPO services providers or the AI-forward BPO software used by providers.

Nowhere is this transformation more apparent than in customer service. In our primary research and expert interviews, three core trends emerged:

- 1. Technological capabilities have expanded rapidly**, driven by robotic process automation (RPA) and now by advancements in AI. Large language models (LLMs) have reached a level of maturity that enables automation of high-volume, structured workflows once reserved for human agents. LLMs are now capable of replacing or augmenting BPO tasks, and BPO providers are shifting from human-only to AI-assisted or -replaced workflows. Going forward, generative AI is poised to cannibalize traditional, labour-based BPO businesses even further.
- 2. Labour dynamics are shifting.** Offshore delivery markets, notably India and the Philippines, are in flux. For instance, wage inflation in India has been running in the mid-to-high single digits, gradually eroding labour cost advantages². In the short term, providers are shifting to new regions to regain labour arbitrage, but over the long-term costs continue rising. Meanwhile, high attrition rates among offshore workforces are a constant challenge to the traditional BPO model and unlikely to go away anytime soon.

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- 3. Pricing models are changing.** As technologies advance, clients are becoming less content with the old full-time-equivalent-based, labour-hour economic arrangement that has defined BPO for years. In BPO deals, a secular shift toward outcome-based pricing is underway. Rather than paying for effort, clients want to pay for results: successful transactions, claims processed, achievement of service level agreement (SLA) targets, etc. In response, BPO providers, as much as their clients, are heavily incentivized to automate to maintain or grow margins. As buyers' focus shifts from inputs to outcomes, outsourcers are taking on more delivery risk, but they also stand to benefit from higher margins if they can produce superior results through technology.

For BPOs, whether through AI adoption, new commercial models, upskilling talent, or establishing deeper relationships with clients, change is a matter of self-preservation. Those that cling to pure labour-driven services will see business migrate to competitors or to in-house global capability centres (GCCs), or they will be eliminated entirely.

Market Overview

BPO spans a wide range of horizontal functions, including IT, customer service and HR. These are functions common across all industries, and virtually any large enterprise, given enough scale, can outsource meaningful portions of its operations. Financial services companies are no exception. The BPO market in 2025 is estimated to have been worth US\$125B and is projected to grow to about US\$230B by 2033.³

Where value is being created now: Contact Centre Automation

We believe that BPOs are facing an existential threat to their business models. Those selling more complicated implementation-related work (e.g., product and IT services) are less at risk for now, but those dealing with routine, repetitive tasks are facing immediate pressure to augment their legacy RPA and chatbot solutions with generative AI.

Compared with accounting, HR, supply chain and other services, customer service has always been considered the low-hanging fruit across the BPO spectrum. Today, it is experiencing rapid transformation thanks to AI. Through the first wave of RPA and chatbots, customer contact centres still relied on human agents because early bots could not handle complex “edge cases”; in financial services, those cases might include dispute settlement or unauthorised account access investigations. AI agents, however, can solve cases traditionally reserved for human agents. And while they cannot yet execute complicated workflows, we expect to see LLMs take on more complex work as integration with internal knowledge bases improves, as agentic capabilities expand, and as improvements in governance and safety build trust in AI-based applications.

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For operators, best-in-class organisations are already realising significant value. Front-office use cases are seeing 40% faster lead qualification speeds, 10% improvements in customer retention through AI-powered follow-ups and messaging, and a US\$2M to US\$10M reduction in annual BPO spending on customer service and document processing.⁴

One key driver of this widespread adoption is that service conversations, particularly first-line/Tier 1 calls, are highly structured and easy to automate. Contact centres long ago took advantage of this through the deployment of interactive voice response (IVR) telephony systems, which interact with callers and route them to specific departments. AI-based systems evolve this function; they can handle both routing and requests that IVR systems could not manage (e.g., live-checking shipping status). Operators we interviewed see one-third to one-half of all call centre operations becoming automated within five years.

Common automation services

Customer service automation offerings generally fall into the following functional categories:

- Self-service deflection solutions intercept and resolve customer queries without needing a live agent. Knowledge base portals, chatbots, voice IVR and other such systems can answer FAQs or perform simple tasks, effectively deflecting a large volume of routine inquiries away from human agents. Advanced agents go beyond answering simple questions to conduct complex dialogues: verifying identity, processing requests, and performing transactions using back-end integrations. To hold natural-seeming conversations, modern platforms combine speech-to-text, language understanding and text-to-speech. Players here include Intercom (through its platform Finn), Zendesk AI, Ada, Bland, Parloa, Yellow.ai, and Farikeet. The key to success: ensuring a high resolution or containment rate and a smooth fallback to human agents.
- Agent-assist tools support human agents during live calls or chats. These AI-powered assistants run in the background and provide real-time help by suggesting answers, referencing knowledge base articles, or prompting “next best” actions to the human agent’s desktop. For example, an agent assist system might live-transcribe a customer call and instantly surface relevant account info or troubleshooting steps. Players in this space include Decagon, Sierra, Cresta, Forethought, and EMA. CCaaS platforms, such as Genesys, NICE, AWS Connect and Google CCAI, also embed agent-assist features like live transcription, suggested responses and sentiment monitoring.
- Analytics and embedded QA solutions analyze support interactions and operations to derive insights. AI is increasingly embedded in contact centre analytics to transcribe calls, measure sentiment and monitor compliance or quality. These solutions might perform automated QA on call recordings, flagging unhappy customer sentiment or agent script deviations. Examples here include Observe AI, Avaamo, and Gridspace. Most CCaaS platforms also offer analytics tools.

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- Agent orchestration and workflow builders act as controls for managing fleets of AI agents, back-office processes and human handoffs across the enterprise. Vendors like Maven, Voiceflow, Ema, Cognigy, and Automaise are positioning themselves in this space, with capabilities ranging from multi-agent orchestration and low-code workflow design to blending front-office conversational AI with back-office document automation. Orchestration and workflow platforms may effectively become the “operating system” for enterprises deploying AI at scale.

All the platforms we researched generally offer self-service deflection, many also offer agent assist, and a few provide embedded analytics and QA tools and/or dedicated agent orchestration solutions. Performance is judged on deflection rates (the proportion of automated customer interactions completely solved through automated channels), containment rates (the share of customer interactions handled completely through automated channels), resolution rates, customer satisfaction (CSAT) and cost-per-interaction. Best-in-class containment rates for new players are in the 70%+ range, compared to legacy systems in the sub-35% range; deflection rates are in the 90%+ range, and resolution rates are two to three times higher than legacy solutions.⁵

The Competitive Landscape

In customer service automation, competitive pressures are coming from multiple directions. For the most part, we expect new entrants to struggle to compete directly with incumbents and hyperscale cloud providers that are actively expanding their contact centre offerings. If these entrants are going to break through, they will need first to compete against players that enjoy deep distribution points across adjacent service areas (cloud, ticketing, telephony), and then they will have to deliver a voice- or text-based agent that is meaningfully better than those offered by the leading model providers. That is a high bar, given the breadth of capabilities already available and the pace of improvement.

The key competitors in the contact centre space comprise four categories:

- Cloud platforms have moved aggressively. Google Cloud, which began by partnering with contact centre vendors via Dialogflow and Contact Center AI (CCAI), has expanded into a full CCaaS platform with embedded AI. AWS, through Amazon Connect, similarly provides a cloud contact centre offering that integrates its AI stack, including Contact Lens analytics and the Amazon “Q” assistant, which layers generative AI into live interactions and post-call analysis. The threat from hyperscalers lies not just in feature parity, but also the potential to commoditise downstream software vendors by embedding AI directly into CCaaS offerings. These platforms excel in large enterprises with the development resources to launch their own custom solutions.

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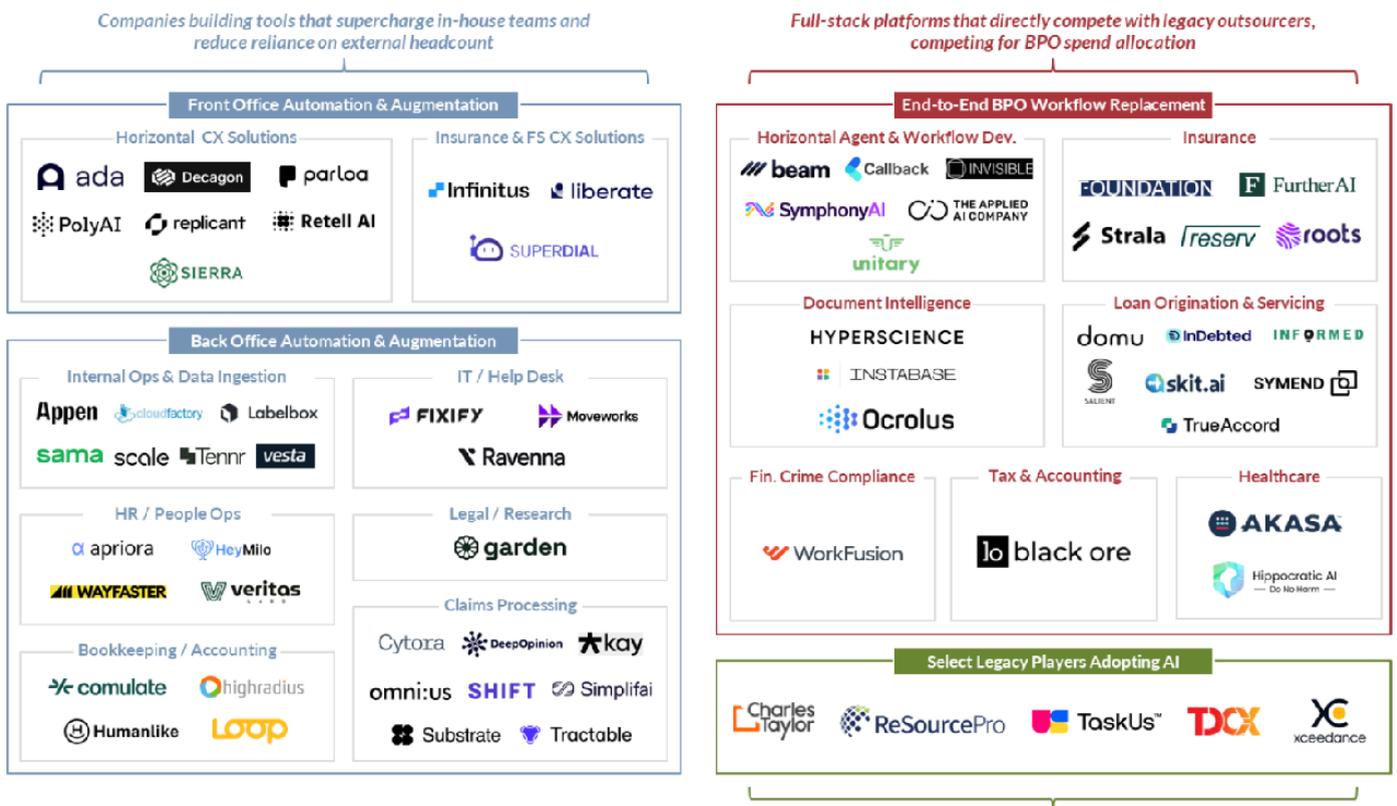
- Legacy incumbents are not standing still. Established customer support software companies like Genesys, NICE/InContact, Zendesk, and Intercom have been adding AI features to their contact centre portfolios, often through acquisitions or partnerships. Zendesk now includes robust native AI capabilities. Other players in this category include public companies like SoundHound and LivePerson, both early players in the chatbot and conversational intelligence space that have recently expanded into agentic AI solutions. The larger incumbents leverage vast installed bases and the advantage of being deeply embedded in enterprise workflows. While they face the challenge of modernizing legacy architectures and matching the agility of AI-first newcomers, the incumbents' strategy is to offer "good enough" AI within an integrated solution—a compelling proposition for customers who prefer a one-stop platform.
- AI components providers pose another threat to entrants. AI speech model providers Cartesia and Eleven Labs have recently launched their own agent development platforms, competing with some of their API customers. Most of the application layer providers we spoke with relied on Cartesia, Eleven Labs or both as part of their tech stack. These providers can offer first access to new releases, superior latency and volume-based pricing to their enterprise customers.
- Application-layer new entrants have entered the customer support automation market en masse, positioning themselves above the infrastructure layer (CPaaS, CCaaS, CRMs) by offering purpose-built AI agents and orchestration platforms. These entrants differ in distinct ways. Many large players like Sierra offer white-glove implementation and managed service, appealing to enterprises that want turnkey automation. Some players pursue vertical specialisation; for example, Kastle sells voice AI agents to mortgage lenders, and Liberate specialises in voice agents for insurance claims.

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For new entrants, our view is that competitive pressures from existing players in ticketing, CCaaS, voice models and cloud platforms will make it difficult to establish a true tech moat.

Some within the space have taken the approach of developing business-unit-agnostic agent orchestration and development platforms. Generally, however, given that incumbents enjoy established distribution channels and broader platform solutions, competing at an enterprise level will require highly tailored, industry-specific solutions and a hyper-focused go-to-market strategy.

Figure 2: Market map of BPO disruptors



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Five Trends to Watch

The pace of innovation in BPO means that making predictions is difficult, if not downright foolhardy. That said, we have some confidence in identifying a few trends that will define where the space is headed.

1. *Agents will own Tier 1 service and beyond.*

AI agents will increasingly be the default channel for Tier 1 customer service and move into more complex workflows, reducing reliance on traditional human call centres. In financial services and insurance, agents will go beyond simply deflecting frequently asked questions and become trusted handlers of sensitive interactions, like account disputes or first-pass claims resolution.

2. *BPOs will focus on systems integration.*

The BPO business model will pivot fully away from seat-based outsourcing—a process already underway as outcome-based pricing becomes the norm—toward systems integration and automation consulting. Instead of competing on labour cost arbitrage, BPOs will differentiate by embedding AI platforms into client workflows. For financial services, this means BPOs will increasingly serve as compliance-aware implementation partners who blend tech adoption with risk management. Large BPO players are already doing this; we expect smaller BPOs that are unable to adapt will fizzle away in the long run.

3. *Application-layer developers will lean into services.*

Application-layer startups will find that pure software differentiation is difficult in a crowded market dominated by hyperscalers, CCaaS incumbents and model providers. To reduce buyer friction and drive adoption, many will bundle services such as managed implementation, workflow orchestration, and consulting. These services will be necessary to win large enterprises with legacy systems and unique regulatory guardrails to navigate (for example, when compliance regulations require strict residency and security controls it requires). Larger players already derive a significant share of their revenue from service-related businesses. Among publicly listed firms, LivePerson and Sprinklr derive about ~10% of revenue from professional services; for Soundhound, the share is about 57% across hosted and professional services. We expect more application-layer players to evolve into services-heavy, hybrid models, moving up the value chain into BPO-esque consulting and implementation work.

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4. Industry-specific, business-unit-agnostic orchestration platforms will gain share.

We expect AI agents to evolve into verticalized platforms that combine domain expertise with workflow design and orchestration capabilities. In banking, this means “know-your-customer” (KYC) and fraud agents will not only automate discrete tasks but also integrate with account servicing workflows and compliance checks. In insurance, claims agents will orchestrate the full life cycle, from intake and documentation to eligibility validation and escalation, confining human involvement to edge cases only.

5. Consolidation will accelerate.

We anticipate more M&A among application-layer startups as both incumbents and private equity-backed platforms seek to offer end-to-end automation suites. Rather than stitching together point solutions, enterprises will increasingly prefer a single offering that integrates conversational AI, workflow orchestration and analytics. This will drive acquisitions of smaller, feature-specific vendors and push independents to either specialise narrowly or sell. The result: a bifurcated market, with a few scaled platforms competing head-to-head with hyperscalers, and a long tail of niche vertical or workflow specialists. Based on precedent, exiting to a large CCaaS provider in the US\$1B range looks like a feasible outcome for application layer developers that hit scale; large PE-backed BPO platforms could also look to acquire point-solution providers.

6. Recent improvements in Agentic AI will further reshape the economics of outsourced operations.

The next phase of automation will be driven by agentic systems capable of independently executing multi-step workflows rather than simply assisting human operators. As these systems gain the ability to plan, retrieve information across enterprise systems and take action with minimal human intervention, they will begin to replace entire segments of routine BPO labour rather than individual tasks. For service providers, this shift will continue to compress seat-based revenue models but create new opportunities in agent orchestration, governance and exception management. Where once BPOs touted their ability to use RPA and build integrations into the underlying data stacks, now BPOs will need to reposition themselves as operators of AI-enabled service stacks—responsible for supervising fleets of autonomous agents, ensuring compliance and handling edge cases to remain relevant. Those dependent on large pools of lower value, seat based labour may see demand erode rapidly. Agents, which work autonomously to solve problems, will take a transformation that started in the customer success sphere and expand it to a much wider pool of BPO service lines. Expect to see a wave of new entrants (and AI forward BPOs) focused on Agentic workflows, often with forward deployed engineers to customize those flows for each end customer’s specific use case.

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Investible Themes

In our research, the Portage team focused on customer service as one of the first parts of the BPO market to face the AI transition. We believe, however, that many of the investment insights we have developed are broadly applicable to all services that BPOs provide. On that level, the evolution of the space is unlikely to directly mirror the Software-as-a-Service revolution that preceded it.

Putting aside price concerns, our focus is on earlier-stage companies that are leaning into hybrid economics, where defensible workflows and distribution advantages matter most.

When we look at firms in this space, we do so through the lens of three themes:

- **Task complexity and specialization:** Businesses that address high-stakes, regulated or revenue-critical functions create defensible value through automation (e.g., fraud workflows, claims and disputes). These players carve out “must-have” niches rather than generic FAQ/chatbot offerings.
- **Services and support:** Players with proven execution as software-first providers, but with an appetite to build out their services offering, would be interesting to us. Enterprises with preconfigured knowledge bases/CRMs are generally inclined to stay within their existing vendor’s ecosystem. A smooth implementation process to justify switching costs will be key to winning enterprise.
- **Distribution:** We look for evidence of privileged access to buyers through exclusive BPO channels, systems integrator agreements or embedded partnerships. In a crowded market, distribution leverage matters more than feature parity. Other players could use M&A to access the distribution of small existing BPO platforms and transform the acquired company, proving the efficacy of their tech and creating cash flow to rinse-and-repeat the acquisition process going forward.

Outside of these more software-style opportunities, we think there are also opportunities in horizontal roll-up plays that leverage the distribution advantage we noted above, and in vertical integration plays, since M&A is the most straightforward way to bring “software chops” to an existing business and adapt to modern BPO pricing models.

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