THE SOURCING REVIEW

The past year has seen outsourcing suppliers expected to provide even more, for even less, argues Jessica Twentyman

"Help us to do more with less, but help us to do it at a price that won't ruffle boardroom feathers." That's the challenge that organisations worldwide issued to their outsourcing providers in 2009.

Back in May, IT market analyst company Gartner predicted that almost 60 per cent of organisations in Western Europe would outsource more IT and business processes in 2009, while renegotiation of existing contracts was forecast to rise to more than 60 per cent. But the survey also showed that this rising demand would play out against a backdrop of economic constraint, with more than two-thirds of respondents (70 per cent) citing budget and cost containment as their top concern in 2009, up from 17.5 per cent in 2008. That led Gartner's analysts to estimate that outsourcing prices would decline between five per cent and 20 per cent over the course of the year.

So has the outsourcing industry stepped forwards to meet customer demands? The signs from the UK are positive at least, with business advisory firm Equaterra recently revealing that levels of customer satisfaction with outsourcing have never been higher: "Given the strong

emphasis on cost-cutting this year, the ability of service providers to deliver high quality, innovative and flexible services at a lower cost is a positive sign for the outsourcing market and its ongoing growth," commented Lee Ayling, managing director of the IT advisory group at Equaterra.

Worldwide 2009 revenue figures from outsourcing are still some way off – most analyst companies won't release those until well into the first or even second quarters of 2010. But regardless of what they reveal, 2009 was still a busy year for the outsourcing industry.

It was certainly a year in which providers were forced to 'play nicely' with their competitors, as multisourcing tactics took precedence over 'megadeals' awarded to a single provider. Perhaps the best example from the year was BP's five-year, $1.5bn deal with Indian major Tata Consultancy Services (TCS), Infosys Technologies and Wipro, along with global IT giants IBM and Accenture. That deal still had the effect of reducing the number of outsourcing suppliers to BP from over 40 to five.

It was also the year that many providers started to grapple with the notion of cloud computing – and the

impact it may have on their future business models and strategies. In August, Infosys chief executive Kris Gopalakrishnan told the Financial Times that the slowdown was forcing outsourcing companies, including his own, to look at Cloud computing seriously: "It is a change that is happening, and if we are not adapting to that change, we may get caught out," he says. Conversely, the Cloud could also present a big opportunity for the outsourcing industry to tap into a much wider market for its services, particularly among small and medium-sized businesses.

"The winners in this game will be those providers who can articulate exactly what Cloud means and how companies can start evaluating Cloud-based delivery models," writes former AMR Research analyst Phil Fersht, now a Cognizant executive in a recent blog posting. "Cloud will become closely intertwined with outsourcing," he predicts.

For that reason, many service providers began work on their Cloud strategies in 2009. One of the first to articulate their's was Wipro. In September, the company announced a hosting service, w-SaaS, for software companies looking to offer their products under the software-as-a-service (SaaS) model.

If future prospects for the outsourcing industry's relationship with Cloud still remain unclear, the same cannot be said of its passion for all things green. Black Book's 2009 Green Outsourcing Survey showed that competitive Indian outsourcing companies are scrambling to move beyond viewing sustainability demands as a necessary cost of doing business and are instead implementing 'innovative and tangible' environmentally friendly alternatives. Major US and Indian outsourcers are also adding new revenue streams through sustainability options, the research noted.

However, there will be a good deal of market education for them to undertake. When Black Book questioned large American corporations, it found that 62 per cent have established detailed green IT data centre strategies, including outsourcing vendor expectations. At the same time, 88 per cent are not entirely sure what constitutes "achieving true sustainability".

One area that was distinctly quieter in 2009 was mergers and acquistions (M&A) activity. In 2009, it seems, the outsourcing sector was more focused on driving business on a day-to-day basis than on big-ticket M&A. The biggest news was arguably Tech Mahindra's takeover of disgraced IT firm Satyam in April, but despite its impact, the value of outsourcing M&A deals in the first half of 2009 capped at £616m, compared to $1.3bn in the corresponding 2008 period, according to figures from financial advisory firm Grant Thornton. Throughout the year, IT and BPO firms

generally stayed away from big M&A action, although many are predicting that 2010 may see an end to these doldrums. There were a few exceptions, of course: among them, Xerox's $6.4bn purchase of ACS and Dell's acquisition of Perot Systems (both announced in September).

That said, developing operations in new – and often offshore – locations remained a key priority for the industry in 2009. XMG Global, a Canada-based market research company, recently calculated the 2009 market shares of the three top offshore countries, namely India, China and the Philippines. India and China remain at the top of the list, grabbing 44.8 per cent and 25.9 per cent of available offshored work respectively. The Philippines, meanwhile, took 6.9 per cent of total offshore revenue. The report also points out that the rising attractiveness of other offshoring locations (in particular, South Africa, Egypt and Mexico) and the continuing agility and commitment of the Chinese and Vietnamese governments.

Across the board, customers will continue to urge their outsourcing providers to provide "more for less" in 2010. Providers that offer more mature service levels, more innovative technologies, more acceptance of responsibility (and risk) in shorter turnaround times and at a lower cost, will be best positioned to meet their demands.

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