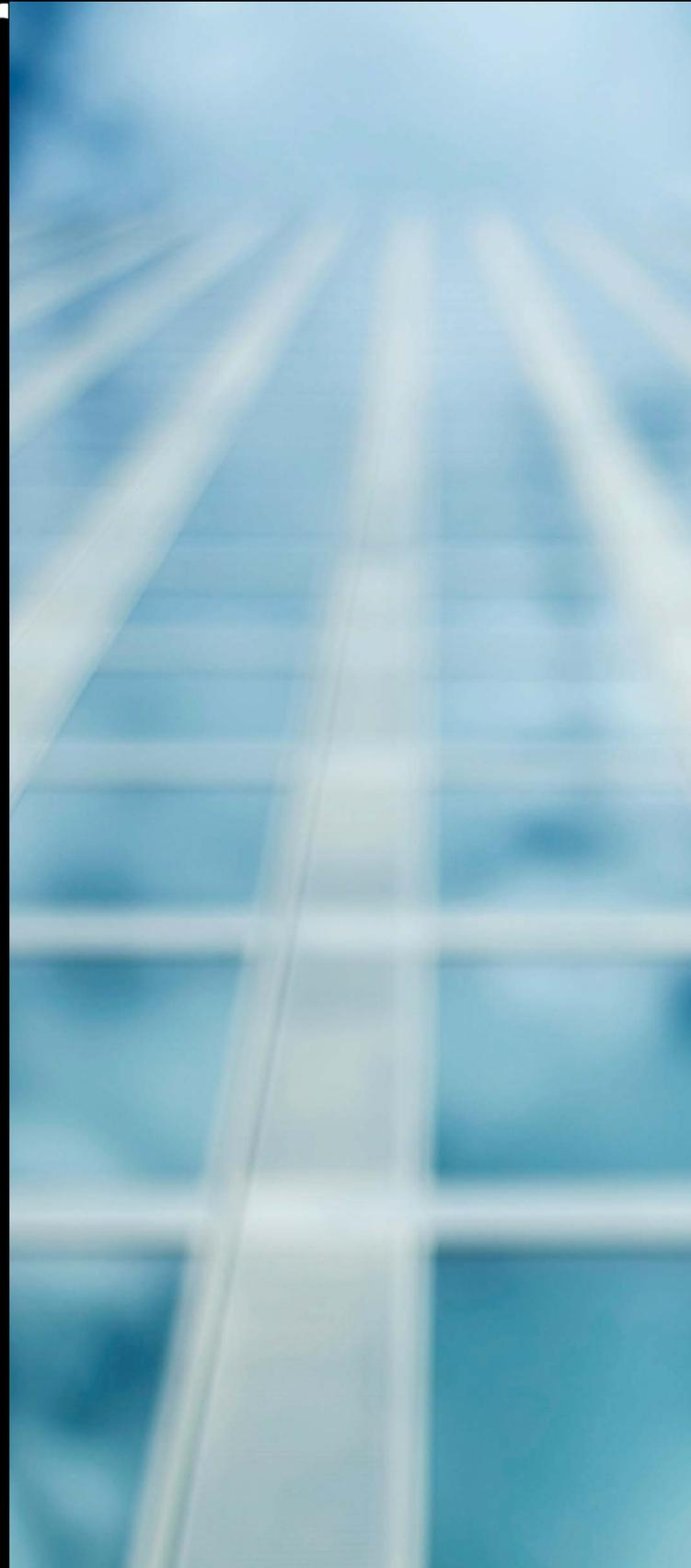


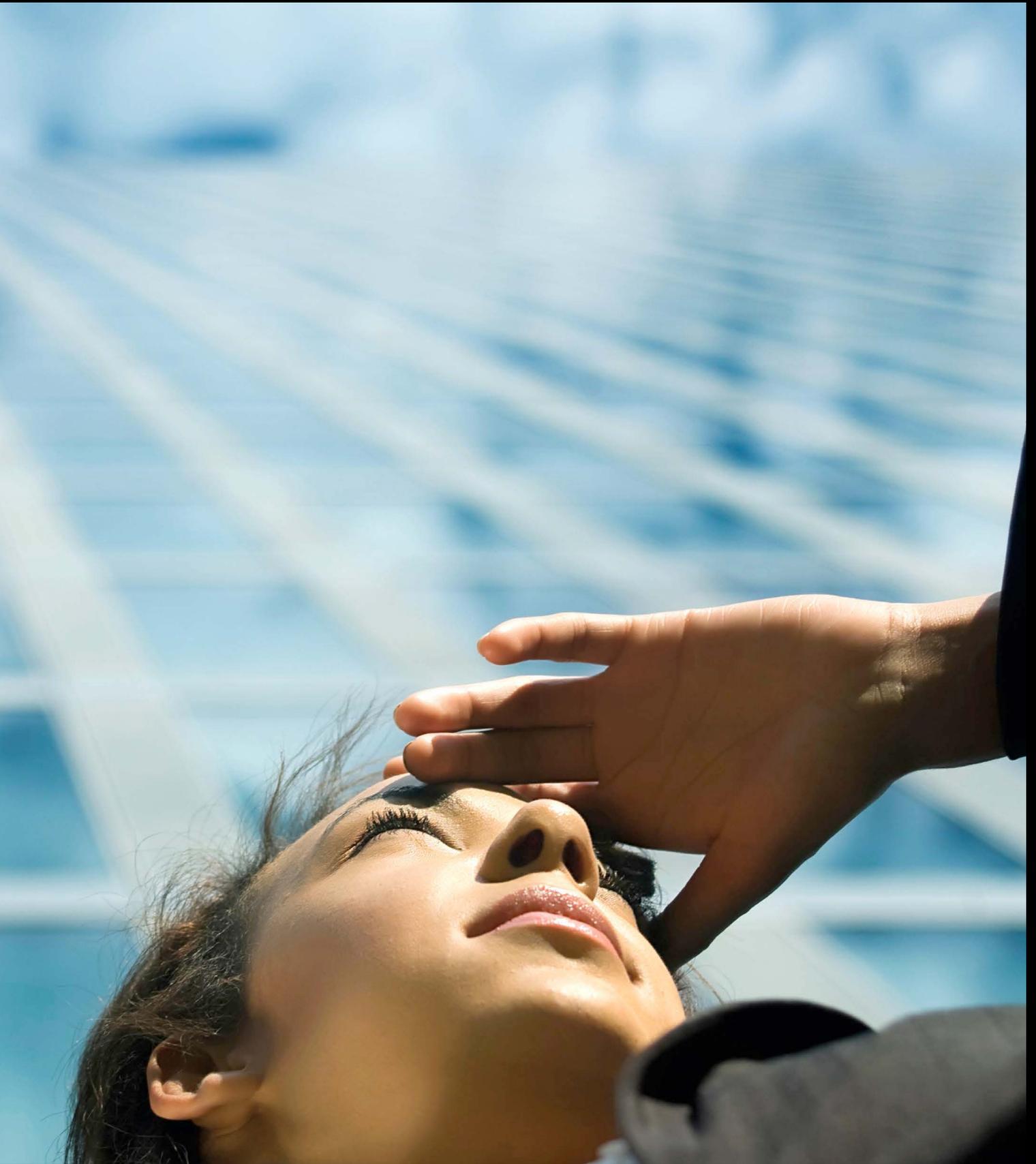
predictions for 2013



2013 is set to be a big year for outsourcing – with no major improvements expected in the economic picture across Europe, outsourcing needs to be at the top of its game, driving maximal efficiencies and enabling users' growth strategies to blossom.

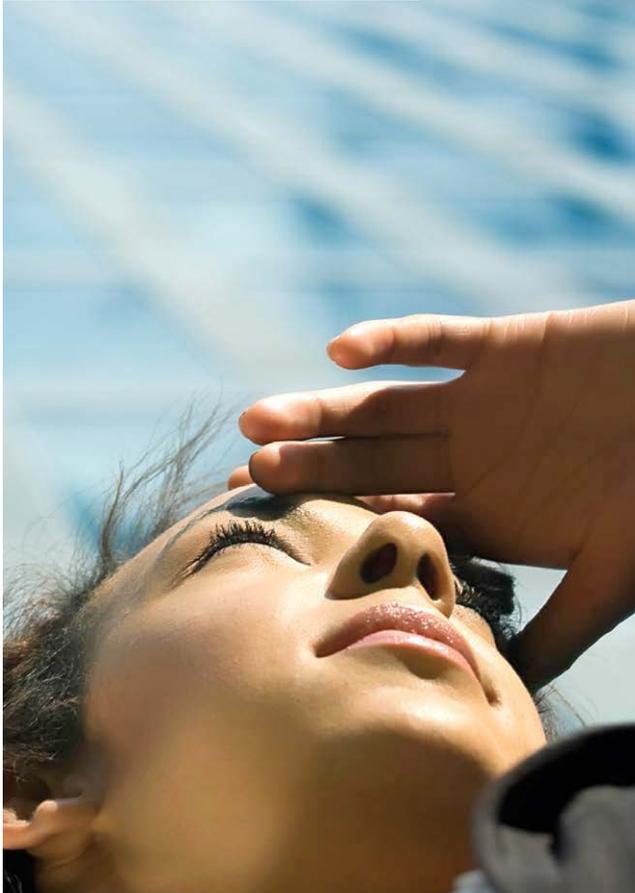
Outsourcing also has a point to prove this year – after a couple of high profile incidents in 2012, our industry's reputation has taken a knock. But the NOA is predicting that outsourcing will rise to the challenge. And that's not all...





PREDICTIONS

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European Jobs for European Workers

There is an 'unemployment gap' widening right across Europe – the gap between the 'haves' (e.g. Germany with a 5percent unemployment rate) and 'have-nots' such as Spain and Greece (26percent) and Portugal (15.8percent) and Cyprus (12percent). This could lead to a scenario where certain EU member states adopt job protectionism. European jobs for European workers.

If enterprises do not adopt policies to 'employ their own', they may be tarred with a similar wave of public distaste to the tax avoidance scandals currently afoot in the UK.

Negative public sentiment, protectionism, adverse exchange rates and cultural differences will make offshoring (whether as a captive or as part of an outsourcing programme) outside Europe an increasingly unattractive proposition for organisations.

The likely result is that although enterprises will not completely give up their global delivery models, we are likely to see a leaning towards contracts not being renewed offshore, leading to relocation from non-European locations (e.g. BRIC countries) to locations in the lower-cost parts of Europe, or within their domestic locations.

Automation to Curb the Propensity to Offshore

The continued rise in industrialisation (or the automation of low to mid-level procedures by customers on the web, or by staff using internal standardised IT services) will erode much of the economic competitive advantage of offshoring. 2013 will see new models (and possibly new players) to integrate and manage these automated services. As labour and transport costs rise, automation could see much work coming back to the UK. As more sophisticated offerings require greater cultural affinity, the UK and nearshore locations will become much more attractive. There will always be a demand for supply with criteria that will be country specific, but offshore destinations will have to differentiate their offerings more precisely and make strenuous efforts to keep their profiles raised.

Cash Piles to be put to Work: Outsourcing Demand to Increase

Finance Directors sitting on huge cash reserves need to start making that cash work for them, and the good of the UK economy. The second half of 2013 looks like it will be the start of economic recovery in the UK: those that get brave, and make heavy investments – perhaps in new technology, or outsourced R&D or marketing programmes – will see huge benefits that others will be envious of.

Still, we expect most enterprises will be cautious about investing, this will lead to a demand on outsourcing suppliers to help them increase capacity and reduce the risk (of customers investing themselves). Outsource suppliers should make sure they can respond quickly enough and should already be looking at their strategic customers to see if they can suggest expansion areas, perhaps piloting in the first or second quarter of 2013.

Upfront Payments, Guaranteed Savings

2013 will see suppliers actually committing to contract savings, in an old school vendor financing approach. The effect of this will be that those cash rich suppliers will in essence start to buy contracts with cash benefits and then look to make them work whilst stifling competition and driving consolidation. Over supply is becoming an issue and once some of the tier 2 players start to really struggle then acquisitions will happen, with the bigger players accessing key markets and accounts they need to grow.

One provider making their cash pile work for them is Infosys, which has faced an investor backlash and accusations of not being aggressive enough. "When you are looking at \$500 million and billion dollar deals, you see it as a unique opportunity. We are not averse to any opportunity which will give us growth," S.D. Shibulal, Chief Executive Officer of Infosys, said in a recent interview. Expect big suppliers to follow his lead in 2013.

BYOC!

The BYOD trend this year has become a clear indicator of something broader happening in the market – the advent of the personal cloud, where smart mobile devices and their associated apps are becoming more and more part of the enterprise communications space.

The first reaction people have when they have a task is often to ask 'is there an app for that?' Think about your own personal cloud

on your device of choice – it may include iTunes music storage, DropBox file sharing, WebEx conferencing...the list goes on!

Consumers will increasingly synchronise using cloud-based services, building their own 'Personal Cloud'– BYOC! It is in this way that the personal cloud will continue to provide users with a new level of flexibility for professional and private activities resulting in cloud suppliers being more mindful of cross compatibility in the New Year.

Security Matters

Security costs, but security breaches cost more! What this really means is that CIOs have to really think about their IT policies going into 2013; are they adequate? Have they covered off any potential impact to their services and customers? Are they likely to face litigation and/or scrutiny in the press if they suffer a security breach? It is important that these policies are then factored into the service provided by the cloud supplier and then tested.

How does all this affect CIOs in small and medium enterprises? SMEs need to review both the security offering and capability of the cloud based service they want to buy for their business. The likelihood is that SMEs will want to be focusing most of their investment on their own service delivery rather than adding potentially significant security costs, whereas cloud service providers will have made appropriate investment in securing the IT – after all, it's their business.

Meanwhile, large enterprises have to consider their appetite for risk and given their size and complexity decide on how best to deploy their security policies. Whilst CIOs in larger enterprises may have the money to invest in retaining security in its entirety, the question still needs to be asked whether the cloud service provider can mitigate the risks to the same level more cost efficiently in the New Year.

Grow Up Outsourcing!

2013 will witness a sea change in the maturity of the industry, and the profession. Career development and skills mapping in outsourcing will increase significantly in 2013, as suppliers and buyers alike want the reassurance that they are working with experts. There will be more focus on standards and professional development, as companies collaborate to drive them forward. A more mature outsourcing industry will be a fun, innovative and exciting place to work. This will impact upon outsourcing on this country, as companies choose to invest more in its development and grow the UK's role as a revered outsourcing destination.

Data Centres on the Up

The expansion of data centres can be seen in various projects that have already begun or been planned for 2013. The public sector is also looking to employ outsourced data centre capacity with examples such as: Southwark Council's four year managed services contract with Capita; over €5 million is to be invested over a five year program by the Irish government in the creation of a new centre aimed at cloud development and Birmingham is set to receive a new £60 million centre in March 2013 aimed at local businesses development.

With analyst firms predicting that firms will struggle with the increase of Big Data, data centres are becoming a necessary infrastructure requirement, allowing for the increasing use of

data analytics and desire for scalability in services. As services increasingly require greater data storage and with 2013 marking a year of connectivity and IT infrastructure developments, these centres will become a vital part of the network.

An Innovative Mindset

Shifts in mindset will continue to change outsourcing and the wider services industry. Cost savings will still be critically important but the ability to provide ongoing innovation and link to wider business outcomes will become increasingly vital.

Recently, IBM asked 97 C-suite executives about their aspirations for outsourcing relationships. The results categorised the organisations into three groups:

- Cost-cutters–27 percent outsource their IT infrastructure to reduce operations costs
- Growth-seekers–37 percent outsource IT infrastructure, application management or business processes to achieve operational efficiencies and revenue growth
- Innovators–36 percent outsource multiple parts of the business to enable transformation and innovation

Whilst a number of organisations will continue to outsource purely to reduce cost, this agenda alone is too narrow to accommodate the expanding expectations of business – expect the focus on innovation to increase in 2013.

Big Society Finally Takes Off

The big society promised by the Tories, will start taking shape as more social enterprises and community based organisations start bidding for work; many will be a collaboration of smaller entities. The outsourcing industry as a whole will see much more collaboration; between smaller and the traditional vendors, between private and public and between various geographies.

This will be facilitated by an increased use of business analytics. More efficiency and transparency within the sourcing initiative is demanded by clientele – this will include new forms of measurement and reporting. Needless to say there will be intense focus on better governance and relationship management.

Public Sector to Get Smart

After last year, when a couple of high-profile public procurements caused major embarrassment, the government will take positive steps to up-skill in governance and relationship management. Outsourcing will continue to be the preferred strategic option, as the government presses on with its quest to reduce its public debt.

Cutting out risk, through more effective supervision and control will be a prevailing theme – but holding on too tight will strangle the value out of a deal. So expect relationship managers to get to grips with a tight/loose approach – government procurers will need to learn from each other, and successful private sector end users in order to make best advantage of the creative tension that multi-party problem solving thrives on. Engaging confidently, able to give and take as good as they get –the next generation of government procurers will stand up and be counted in 2013.