

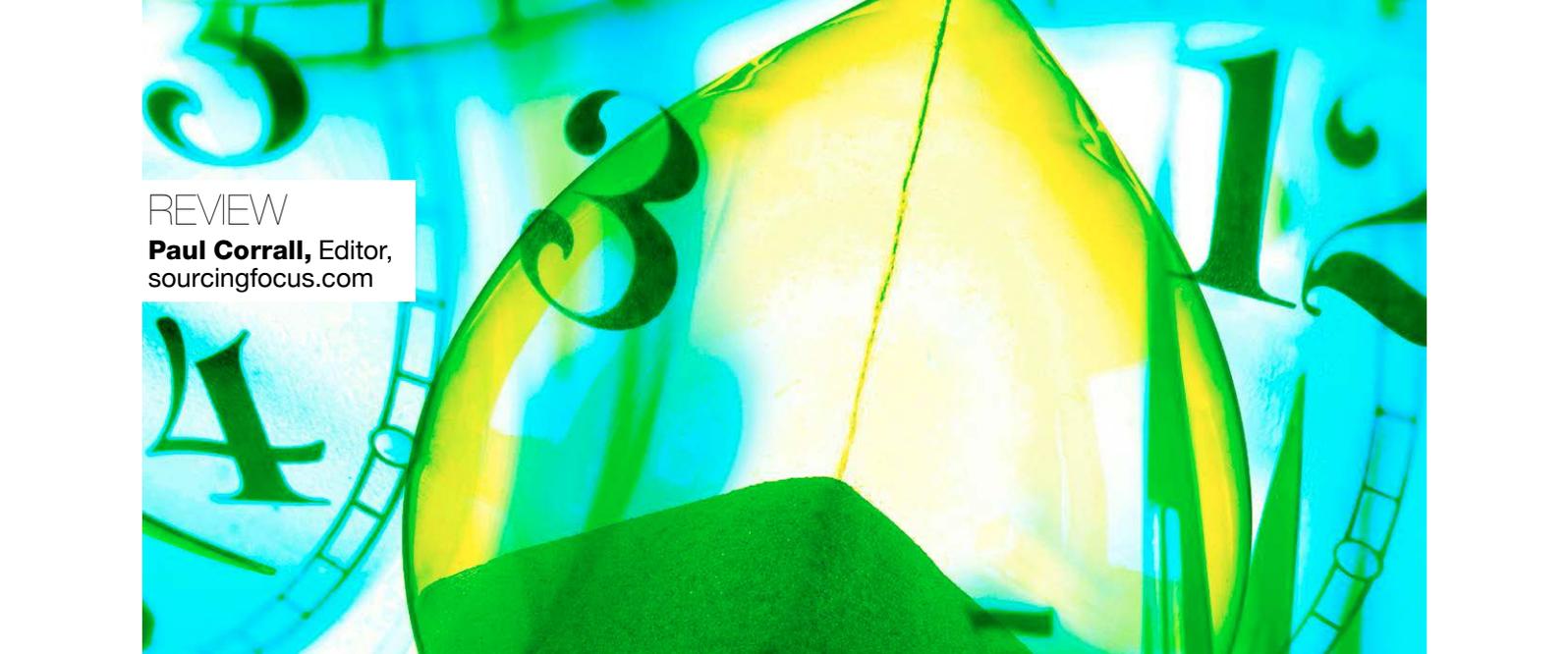
review of 2012

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There can be no denying that 2012 has been a high profile year for the outsourcing industry. Cost has undoubtedly remained a key driver for outsourcing, however this year has seen innovative sourcing models offering a variety of benefits to SMEs and big corporations alike. Outsourcing has truly developed as a strategy for businesses to transform their operations – delivering greater efficiencies, improving flexibility, increasing quality of services and incorporating innovative solutions.





REVIEW

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This review will look at some of the biggest outsourcing headlines in 2012 including the reputation of the industry, British infrastructure, procurement in the public sector and the impact of the US election.

Counting the Contracts

The outsourcing market remained healthy in 2012 and has responded strongly in the third quarter after a slow start to the year. Globally, outsourcing activity has been boosted by performance in the BPO sector, and also in the Asia Pacific region. ISG, a leading technology insights, market intelligence and advisory services company, believes that annual contract values (ACV) are expected to sustain their upward trajectory in the final quarter, in part thanks to some larger deals ready to go to award.

Giving an overview of the 2012 contract activity, John Keppel, Partner and President, ISG says: "Mega relationships (contracts of €80 million or more) – typically a solid barometer of overall market performance – have surpassed expectations. By the end of the third quarter 2012, 26 mega-relationships had been awarded, exceeding the 24 awarded in the full year 2011."

Discussing EMEA John continues: "Outsourcing levels often match economic conditions and confidence, and that 2012's third quarter in EMEA was the second best on record (in terms of ACV) is a positive sign. Although trading conditions in the region remain difficult, with the volatility of the economic environment set to stay for the foreseeable future, we do detect a renewed appetite for outsourcing."

Half of 2012's mega relationships were awarded in EMEA which, considering the wider European economic climate, this may be surprising. However a large amount of activity had also been occurring in emerging markets – outside of North America, Western Europe and ANZ; a trend that will no doubt continue into 2013."

In contrast to healthy EMEA activity, Market Vista, a global outsourcing and offshoring analyst, reported that global third quarter transactions and ACV fell 8 and 35 percent compared to the second quarter, respectively. Furthermore, according to Market Vista, the market saw 380 outsourcing deals signed in

the third quarter, compared to 472 and 441 during the first and second quarters, respectively. Both transaction volume and ACV dropped for ITO and BPO.

"In years past, the market saw pent up demand accumulate then propel positive third-quarter activity, but that didn't happen this year," said Eric Simonson, managing partner of Research, Market Vista.

ISG's John Keppel concludes with an overview of the USA market: "In the Americas, nearly 80 contracts with a combined value of €1.3 billion were awarded in Q3, a drop on previous quarters. Maturity of the US market as well as election impacts explains why the region saw a decrease in both the number of contracts awarded and ACV in 2012."

By contrast, the Asia Pacific region continued to show the strongest overall growth in 2012, bolstered by activity in China, India and South East Asia.

Read All About It

2012 was a challenging year for the reputation of outsourcing. Negative headlines fuelled the public profile of outsourcing and the US election in particular reinforced negative stereotypes of the industry on a global stage.

Research conducted in the spring of 2012 by Populus for the National Outsourcing Association confirmed that outsourcing has an image problem. It is very much maligned because it is misunderstood. Statistics from the research show that the public do not believe that outsourcing is a major contributor to the UK economy. According to the "Public Perception of Outsourcing Research" a staggering 80percent of the general public do not think the sourcing industry is helping UK PLC. This is in spite of 2011 research stating that outsourcing is the second biggest contributor to UK GDP – weighing in with 8percent, only a nose behind the 8.1percent from the finance sector.

More so than any other story last year, the failure of G4S to deliver on the Olympics security contract placed outsourcing firmly under the spotlight. Negative press coverage simply snowballed and the headlines highlighted the failure of a public contract to a worldwide audience.

Keith Vaz, Chair of the Home Affairs Committee, supported this notion: "G4S admitted to the committee last summer that they had presided over a humiliating shambles at the Olympics. It's important that we look at their record across the board when awarding new contracts."

As the G4S Olympics story unravelled in the summer it seems not only were there critical flaws in the governance plan, change management, and the IT infrastructure, but the partnership between the government and G4S seemed ineffective from the start due to an ineffective communications strategy.

Although lessons need to be learnt from G4S, the public sector has been successfully outsourcing for decades and it is a shame that one, albeit huge, failure seems to have tainted a valued industry.

"One very high profile deal goes awry and outsourcing is squarely back under the microscope," said NOA Chairman Martyn Hart. "Outsourcing only arouses interest when it goes wrong. Of the 100s of outsourcing deals that make up the Olympics, only one gets a mention."

Following G4S the UK government remained committed to classify outsourcers involved in public sector contracts, with those classified as 'high risk' effectively blacklisted from contracts. Writing to colleagues in July, Francis Maude said: "When awarding new contracts to large suppliers, the government has not always taken existing performance into account. Too often this has resulted in suppliers winning new business, even when they were materially under-performing on critical work elsewhere in government."

US Election

Outsourcing is a controversial topic in the United States, and in a political campaign it can be downright poisonous, as it was in the election last year. Bain Capital, the private equity firm that Mitt Romney once led, was criticised throughout the campaign by President Obama for investing in companies that moved jobs overseas, and one of Obama's campaign ads even went as far as nicknaming Mr. Romney the "Outsourcer in Chief" and "Outsourcing Pioneer".

Obama's constant open criticism of offshoring was dominated by the phrase 'offshore outsourcing'. 'Offshoring' and 'outsourcing' are obviously very different practices and in this election especially, the combined term muddled the two, resulting in 'outsourcing' being perceived as 'offshoring' to the masses.

In his victory speech, President Obama outlined his plans to ensure American children grow up in a country that attracts jobs by investing in technology — "a country that lives up to its legacy as the global leader in technology and discovery and innovation, with all the good jobs and new businesses that follow."

Even though President Obama rallied against outsourcing in his campaign, information technology titans and trade groups in

India warmly welcomed his re-election, as they were optimistic that he would cement bilateral ties and improve the United States economy in his second term, which in turn would improve their business. History has also shown that although outsourcing is regularly criticised in US elections, it is rare that a President follows up their sentiments with actual legislation – acknowledging the real benefits of outsourcing on an economy.

Procuring in the Public Sector

Even when memories of G4S were beginning to fade, on-going debates concerning the role of outsourcing in the public sector continued in 2012 due to the privatisation of prisons, a controversial Atos disability contract, and the increased use of outsourcing by the NHS.

In a report published last year by leading global advisory, Ernst and Young, a trend showing a divergence in supplier prices being paid by different hospitals was discovered – with millions of pounds being wasted by the failure of NHS Trusts to effectively communicate and negotiate strong and effective contracts.

The failure of contract negotiation and project governance in the NHS has been seen before in the failure of the Lorenzo digital record contract with CSC. While CSC was guilty of numerous account errors, the NHS failed to employ effective governance, and the inclusion of damaging targets weakened service levels.

Nigel Clifford, CEO at Procserve, a leader in enabling secure transactions online, commented on the report saying: "Ernst and Young's report has highlighted the fragmentation and lack of sharing in NHS procurement, leading to some hospitals in England paying more than they need to for medical supplies. This is bad news when funding pressures are being felt in the health sector."

While the report identified weaknesses in how the NHS carried out procurement, the development of the National Police Procurement Hub (NPPH) was identified as a good example of driving value for money and ensuring that individual forces receive value from one main procurement system driving highly negotiated contracts.

As the NHS moves to outsource greater numbers of services, with one in five NHS patients now treated by private firms, the risk of ineffective handling of contracts becomes more prevalent. The public sector is well placed to drive strong procurement contracts and outsource key services as demonstrated by the work of other departments, but it is clear that best practice has not yet been employed within all areas.

The West Coast main line fiasco was another high profile procurement embarrassment, which further undermined confidence in government procurement. A report conducted by Centrica CEO last year identified failures in transparency and in the process of risk calculation by the Department for Transport (DfT). Despite being aware of failures in following its own guidelines the DfT continued the bidding process.

The report detailed that: "These errors appear to have been caused by factors including inadequate planning and preparation, a complex organisational structure and a weak governance and quality assurance framework." In December, the government announced that Virgin Rail would continue to operate the West Coast line for a further two years overturning a mistake costing £40 million to the tax payer, after previously awarding the contract to First Group.

The government also cancelled three major sector procurement framework projects at the end of 2012 in a bid to increase competition and attract increased numbers of SMEs. The announcement came after a review of all Government Procurement Service (GPS) projects. The GPS has received criticism in the past for being wasteful, with suppliers forced to provide extensive bids in order to be entered into the awards process, which in turn had reduced the overall supplier pool.

Bill Crothers, Government Chief Procurement Officer, commented that: "frameworks which are already operating effectively and delivering significant change such as the Public Services Network and G-Cloud provide a model for success and will continue."

Towards the end of last year, an All Party Parliamentary Group on Outsourcing and Shared Services (APPG) report stated that public sector outsourcing contracts need to be easier and more accessible. The aim of the report was to offer best practice in outsourcing and provide guidance for the government to be a better consumer of outsourcing services. It offered 10 recommendations for the government to consider – three of which were noted in more detail during the report launch at the House of Commons.

The first concerned ensuring that government was better educated in commissioning public sector outsourcing contracts. Secondly, the report recommended that business objectives should be far clearer for both private and public sectors and the third key recommendation concerned the focus on outcome, rather than standardised process.

"The Group felt it was very important for the social value of contracts to be better communicated and this would help to detoxify the image of outsourcing. Special Interest Groups on best practice and governance exist in the private sector, and we wonder whether the formation of such a group for public sector buying might also be of some value." noted Bob Blackman MP, chairman of the APPG.

Building the Foundations for Success

The UK has a long established history in the outsourcing industry with developed capabilities and a strong infrastructure, including: the ability to scale; trusted contract legal frameworks; rapid time to market, and a move to deliver corporate responsibility becoming common practice within the nation.

After a fantastic Olympics, the government seems firmly committed to further improve UK infrastructure. According to the national infrastructure plan published in Osborne's 2012 autumn statement, the government needs £200 billion of investment in transport, power and telecoms projects over the next five years and the majority of the funding will come from the private sector.

Connecting the UK

The government has announced that mobile operators in Britain will be able to roll out 4G services to the vast majority of the country in the first half of this year. The move to bring 4G to the UK six months earlier than previously estimated was announced after Culture Secretary Maria Miller met with providers towards the end of 2012.

EE already owned 1800MHz spectrum licenses, capable of delivering the LTE signal needed for 4G, and successfully petitioned the government last year to allow it to offer the service to consumers in October.

The other big players: O2, Vodafone and Three, will all head through an auction in 2013 to get their hands on the prized spectrum licenses to deliver the same services, so it would seem EE has gained a huge advantage by going first.

The government said: "Delivering 4G services is a key part of the government's commitment to providing the UK with the digital infrastructure businesses need to succeed and grow. The deal, worth up to £3 billion to the UK economy, will give people internet speeds on smartphones and tablets up to 10 times faster than currently available."

Other recent UK infrastructure developments have included a governmental focus on broadband connectivity and speed. David Cameron said last year that superfast broadband is "an essential building block of a growing economy, so we are cutting the red tape." In November the UK government received EU approval to carry forward its big £530 million rural broadband development project with 90 percent of UK homes to receive the new superfast service.

Maria Miller, Secretary of State for Culture, Media and Sport, said: "Getting the green light from Brussels will mean a huge boost for the British economy. Superfast broadband is essential to creating growth, jobs and prosperity and the delay has caused frustration within government. The announcement means that we can crack on with delivering broadband plans, boosting growth and jobs around the country."

The UK government also provided funding for the development of a new broadband development project from the University of Surrey, totalling £35 million. The confirmed funding will promote research in creating 5th generation cellular communications.

The new centre due to open in mid-2014, has been hailed by Professor Rahim Tafazolli of the University of Surrey as "the single biggest opportunity for the UK to regain a world leading position in the development of 5G technologies and for the development of vibrant businesses around the technologies."

To further attract suppliers onshore and showcase the UK's commitment to innovation and technology, BT launched the world's first 10Gb "hyper-broadband" trial at the end of last year in Cornwall. The trial was delivered through a direct link with BT's Turo exchange and provides speeds which current technology cannot keep up with.

Alun Morgan, Technical Director at Arcol, a manufacturing company specialising in the production of power resistors, said: "We are still only just discovering the sorts of things we can do with these speeds, such as taking advantage of services like videoconferencing and using a cloud-based ERP system so we can access this information elsewhere, and it has enabled us to be much more efficient and aggressive".

Data Centres

The data centre represents the core of an enterprise's IT capability and its smooth operation is therefore crucial to business performance. The rapid deployment of new or transformed data centre capabilities is essential to support changing business needs.

The proliferation of UK data centres is set to continue in 2013 as the UK looks to position itself as the data centre capital of the world. Two of the UK's biggest data centres are set to open in Leeds and Birmingham later this year.

The Birmingham Data City Exchange data centre will open in March and is expected to cost £60 million offering low energy usage and scalability to users.

Mark Barrow, Strategic Director of Development, Birmingham City Council, said: "The new data centre will create significant employment opportunities across the city and help support some of the local businesses in the area."

Leeds City Council recently approved the construction of the DC4 data centre valued at £43 million. The site, which will be the largest data centre outside of London, will be focused on advancing network infrastructure and improving internet connectivity within the region. It will be a carrier-neutral data centre, which means it is independent of a network, software or hardware supplier and that multiple Internet Service Providers will be able to take part in the data centre, providing best value for businesses using the data centre.

Adam Beaumont, Chief Executive, aql, a voice solutions organisation, said: "The new DC4 site will allow expansion room to support the data growth from the IT, media and mobile sectors – including the huge demands which 4G will place on the region's infrastructure. This project will put Leeds, and Yorkshire as a whole, in a very strong position to fulfil their superfast broadband promise."

All this points to the UK seriously positioning itself as a player on the global stage.

Helping the Little Guy

The role of SMEs in outsourcing and the current economic climate should not be understated. There are 4.5m SMEs in the UK, employing 13.8 million people, so six out of ten people in the UK who work in the private sector are employed by a SME. The government has stressed several times throughout 2012 that the key to recovery lies with SMEs and by encouraging SMEs, competition will increase along with innovation and cost improvements in outsourcing.

For SMEs – offshoring isn't quite as attractive as it used to be. It's not just rising travel costs and international political turbulence proving a turn-off, but the total cost of offshoring is on the rise. Local-sourcing and nearshoring are proving to be the SME choice de rigueur.

Throughout 2012, the growth of Tech City has been staggering, with now over 1000 businesses represented in the area. The vast majority of these organisations are SME suppliers and the government has been very responsive in terms of promoting and aiding digital innovation to further encourage set up in the UK.

Furthermore, the government announced a series of measures to support SME growth in the UK including a £20 billion government plan to try to boost bank lending to SMEs and a €16 million investment programme from the European Commission to give SMEs access to supercomputers.

The EU funded project is designed to build a super computing-cloud throughout Europe. As part of the project, SMEs will receive advice from the European Commission on how they can employ

cloud-based supercomputers to improve their business models and overcome obstacles.

Business Secretary Vince Cable also launched a £60 million pot of Regional Growth Fund (RGF) investment and bank finance in October aimed directly at supporting SMEs.

Vince Cable said: "Regional Growth Fund programmes like this one have already awarded SMEs over 500 grants and loans across the country. This is an excellent way to get value for money, but more importantly, it is a good way to focus on local priorities for growth, as most programmes are led by local partners. RGF is leading the way in rebalancing the economy and boosting business and industry."

It is hopeful going into 2013 that with continued government support, SMEs will continue to invigorate the outsourcing industry, not only as users of services, but through the delivery of innovative and flexible sourcing services and models.

Summary

2013 has been a rollercoaster year for the outsourcing industry. Although negative headlines have prevailed there has been some very positive news from the government especially regarding investments and contract activity in general. The outsourcing market has remained steady and an increase in public sector outsourcing resulted in 2012's third quarter in EMEA being the second best on record, pointing to an optimistic 2013.

UK infrastructure developments have included a government focus on telecommunications, with Boris Johnson's promise to give London "the greatest 4G network in the world", alongside a series of high-level investments in superfast broadband.

As the National Outsourcing Association celebrated its 25th birthday by launching the Outsourcing Works campaign – the NOA Awards proved just that with over 60 shortlisted entries demonstrating the value that outsourcing brings to a business. Looking forward the NOA has acknowledged the need to further professionalise the industry and will be running a series of professional development workshops throughout 2013.

As the public sectors looks to re-evaluate its procurement, end users will continue to ask their outsourcing suppliers 'more for less' in 2013 through innovation and flexibility. We will also continue to see a variety of sourcing models and suppliers working together more than ever to offer best of breed services.

