

# THOSE IN THE KNOW

Outsourcing consultants, technology experts and end-users share their thoughts on the highs and lows of the sector in 2009 and speculate on what 2010 might bring



**MALCOLM SWALLOW, PRINCIPAL CONSULTANT AT OUTSOURCING ADVISORY FIRM EQUATERRA**

**Malcolm explains why 2009 was a year of tough challenges – with ultimately satisfying results:**

Last year was one which many would like to forget, in business terms at least – but it's nevertheless one that's sure to be remembered. While there were

casualties of the economic chaos, it also acted as a catalyst for the adoption of new, more efficient and more innovative outsourcing business models.

Early 2009 was defined by a state of organisational paralysis, as management was reluctant to respond to conditions in the wider economy – it was a time when making a bad decision was considered riskier than making no decision. As the year progressed and market conditions became clearer, strategies were formulated and companies gained the confidence to act.

Many firms were focused on cost-cutting and delivering the maximum value from assets. Equally important was the need to create the necessary

flexibility to adapt to potential periods of growth or contraction. As many business objectives as possible were supported by sourcing – from outsourcing of shared service centres to global sourcing.

For outsourcing service providers, challenges in 2009 included managing consolidation at firms including Tech Mahindra, Satyam, Dell, Perot, ACS and Xerox – a trend yet to run its course.

Despite the many challenges the year provided, and the difficult economic climate, recent findings from EquaTerra's research show that service providers rose to the challenges set by their clients in 2009 as they tried to adapt to new market conditions, delivering cost effective, high quality, innovative and flexible services.



**HEATHER RODGERS, CENTRICA**

**Heather gives her views from the end-user perspective and explains why openness is key to winning business:**

Partners and companies have had to work together much more closely throughout the challenges

the last couple of years have created, leading to a greater degree of transparency in the sector. Those that took this need for transparency on board moved ahead of the competition. Much of this increased visibility was supported by organisations such as the NOA offering more information on the sector and giving ongoing examples of best practice for the sector.

An issue last year which still requires focus and attention, is that of improving the level of maturity of those in middle management, particularly those who are leading outsourced projects happening offshore. No end-user wants to be used as a training

ground for inexperienced managers in different parts of the world.

This year, it will be interesting to see which countries emerge as opportunities for outsourcing as multi-country sourcing is being considered as part of risk mitigation practices. The industry also needs to bear in mind that new types of sourcing are likely to crop. When partnerships reach the end of contracts, there are other options apart from renewal – for example, switching to a new partner or deciding to insource operations back in-house. It is these exciting challenges which keep us continuously learning from each others' experiences.



**GREG HYTENRAUCH,  
CHIEF EXECUTIVE OFFICER OF  
CAPGEMINI UK OUTSOURCING**

**Greg thinks it's time to step up the game to stay ahead of the pack:**

In outsourcing, cost remains king, and I predict no let-up in 2010 in the fight for cost-savings across both private and public sectors. This is bad

news for many. However, our clients view outsourcing – correctly – as a means to continuously lower the cost of IT operations while still getting the job done, so I am optimistic that 2010 will be, another excellent year for outsourcing.

To succeed in giving clients the rapid and substantial cost-savings they seek – not just in IT but across their business, and without detriment to quality or service – outsourcers must step up their game. What worked in 2005 won't work today, and that goes for existing contracts as well as new ones.

A proactive attitude to innovation and a refusal to rest on one's laurels, are also of the essence.

Cost is key. However, 2009 marked the arrival of sustainability as a 'must-have' not a 'nice-to-have'. Our new seven-year contract with the Environment Agency put sustainability at its heart, and was hailed as the greenest in government. I see it as a market-changing deal – one that sets a new pattern for outsourcing contracts across the economy as organisations move to satisfy customers, employees, investors and public opinion.

2010 will be an interesting year for us all, with winners and losers among the vendors. But the great majority of clients will be winners as competition, technology and globalisation conspire to offer them ever better service and ever keener deals.



**DUNCAN AITCHISON,  
EMEA PARTNER AND  
PRESIDENT AT SOURCING  
CONSULTANCY FIRM TPI**

**Duncan gives his views on the past year with a focus on countries set to remain outsourcing leaders in 2010:**

Last year we saw relatively slow large-scale outsourcing activity, (those contracts valued at €20m or more);

however, we expect to see an increase in the total value of contracts signed in this market into 2010.

The earlier slowdown of activity was driven by a lack of corporate decision making, as companies struggled to cope with the impact of the global recession. With signs of confidence returning to the market, the larger businesses who are the primary drivers of the outsourcing market, appear to be willing to make more tactical, long-term decisions about their sourcing strategies.

The majority of larger scale interest is still in the ITO arena, particularly around infrastructure. We are also seeing a renewed

interest emerging from the financial services industry, particularly banking. Historically, this area has regularly been one of the biggest spenders on outsourcing and its decline in activity in the last 18-24 months has had a significant impact on the overall market.

Geographically, we have already seen some recovery of demand in North America, a useful lead indicator for Europe. Market chatter also suggests that alongside the Nordics, which has been one of the more resilient regional markets through the last year, there is now momentum returning to the much larger German and UK markets.



**IAN MARSON, SENIOR MANAGER  
AT GLOBAL CONSULTANCY A.T.  
KEARNEY**

**Ian explains how the mid-market got in on the act last year, as BPO went mainstream:**

After years of outsourcing being all about the Fortune 500, in 2009 the huge middle market, including some normally highly conservative sectors,

got fully in on the act. Achieving cost benefits, unsurprisingly, was still the key rationale for most clients seeking deals, but outsourcing became a way of reducing distractions at a time when all markets were undergoing major turbulence.

This drive for increased focus stood out as a factor, especially for those in historically lower-margin or highly regulated sectors such as manufacturing, agribusiness and utilities. More rapidly scalable and cost-effective platforms that outsourcers are offering, provide a major competitive advantage.

One clear finding that shone through this year was the difference in approach between clients in the US and in Europe – our US clients were

predominantly seeking out bundled deals, with vendors fully managing combined BPO/ITO, whereas in Europe, clients wanted a best-of-breed vendor in each functional area, even if this significantly increased the complexity of vendor management.

For back office, India is still king, but China, Malaysia and the Philippines are starting to offer a serious challenge, and the big vendors are increasingly extending their coverage in these geographies. In more niche areas, Russia and Ukraine, with their closer cultural and time zone proximities, offer more to the big Western markets than Asian destinations. South Africa is increasingly being included on the shortlist of sites for contact centres.



**NEIL ANDERSON,  
MANAGING DIRECTOR OF  
TECHNICAL OUTSOURCING  
COMPANY QCOM**

**Neil explains why borderless collaboration is the buzz-phrase to watch out for in 2010:**

The recession has led to greater interest in outsourcing. This has been driven at least in part, by the

growing realisation that forming close working partnerships with relevant specialists can help facilitate business development while also maintaining a flexible framework. The reality, within the current economic conditions, and with the emergence of Generation Y into the marketplace, UK business strategies need to be more agile than ever before.

Organisations also need to be alert to sector trends and the expectations prevalent within the environment they operate in. It is imperative that they learn how to adapt quickly to enable them to survive, which is where an embedded partnership with specialists can help.

The relationship between outsourcer and end-user goes way beyond being placed in a 'supplier box' with clients, or white-labeling the outsourcer's services. It is important to collaborate with clients when they are pitching for new business, helping to formulate strategy around areas such as customer service. It's an approach I've called "borderless collaboration" between clients and their outsourcing partner and it's one the industry should be developing further in 2010 and beyond.

To me, sharing strategies, results, and future direction is crucial if any outsourced relationship is to be lasting, and I believe it represents the future for our industry.



**SUKHENDU PAL, MANAGING PARTNER AT CENTRIX CONSULTING**

**Sukhendu argues companies must give up their obsession with low costs if they want to make outsourcing work:**

Many large companies, such as BP, Verizon, Vodafone and Chevron, are pruning their number of ITO and BPO vendors in a bid to cut costs, as they

look for ways to come out of the worst recession in years. These companies think this move will help to develop more strategic relationships with a handful of vendors, reduce risks and manage costs better. But this is an illusion – companies who follow this path will find they are spending more and getting less from their handful of vendors in the future.

Already hit by the global recession, small ITO, BPO and KPO vendors may become easy acquisition targets for the bigger ones. To survive, the obvious lesson for them will be to develop expertise in niche areas. India's outsourcing vendors can defend and even expand their global market share, but only if they learn to innovate.

To make outsourcing count, companies must give up their obsession with lowest-costs, which has proved counter-productive time and again. Successful companies must be prepared to change from the traditional large suppliers.

To get more from investments, companies must understand the types of partnerships they need from their ITO/BPO/KPO suppliers, decide which ones can offer those partnerships, and then act on building the right level of partnership. By avoiding value-destroying behaviour, companies and their selected suppliers can build a foundation of trust which is fundamental to success.



**ALAN YOUNG, SENIOR OUTSOURCING ADVISOR AT PA CONSULTING GROUP**

**Alan discusses the year in contact centres and looks ahead at 2010 for the sector:**

For contact centres, 2009 was a year of cost reduction, with price the most important factor in supplier

selection, apart from availability of language skills. Cost pressures are more pronounced in the sector, due to high levels of commoditisation.

In recent years, there has been a good proportion of transformational contracts based around performance improvement, but often these are effectively stranded – they don't deliver what client organisations want. As a result, there are pressures to reduce overall call volumes.

Nevertheless, the sector is continuing to grow, particularly in the following areas: the mid-market, where suppliers are offering simple, standard contracts for handling smaller volumes; specialist services,

particularly debt collection; and strategic additions to basic services offered by suppliers, such as customer analytics, although volumes are relatively low.

Looking ahead to this year, much will depend on economic conditions. In some cases, suppliers are buying work below cost, particularly offshore, and we could see bankruptcies as a result. Others with healthier balance sheets, are acquiring centres from clients that need to free up cash, and may buy their competitors. In the medium term, we expect to see the return of more transformational activity that will unlock great value from customer service.