

Global Off Shoring and Outsourcing Market Dynamics

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Agenda

Global Off Shoring Trends – Summary

Market Sizing and Forecasts

EALA Market Trends

Deal Trends

Buyer Values

Conclusion: Analyst Recommendations

3

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Off Shoring – Controversial issue

Perceived Benefits

- It is seen as benefiting both the origin and destination country through [free trade](#), providing jobs to the destination country and lower cost of goods and services to the origin country. This makes both sides see increased Gross Domestic Product (GDP). Total number of jobs should increase in both countries since those workers in the origin country that lost their job can move to higher-value jobs in which their country has a [comparative advantage](#)

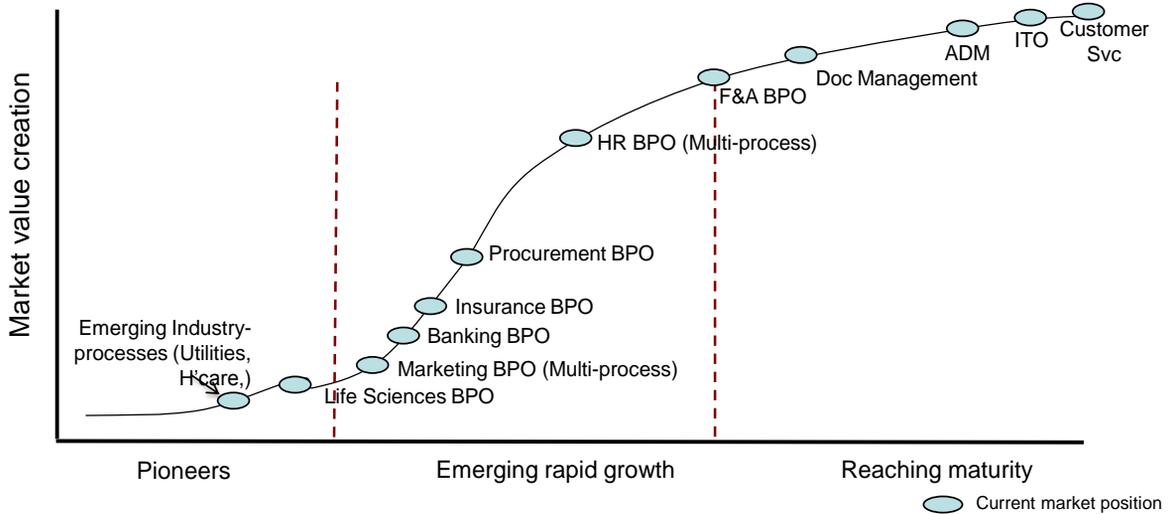
Perceived Pitfalls

- Job losses and wage erosion in developed countries. Experts argue that the quality of any new jobs in developed countries are less than the jobs lost and offer lower pay
- Other concerns are related to Level of Service, Supply chain (less control), Competition (loss of know-how, weakening the original producer)

4

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Outsourcing maturity curve in 2011

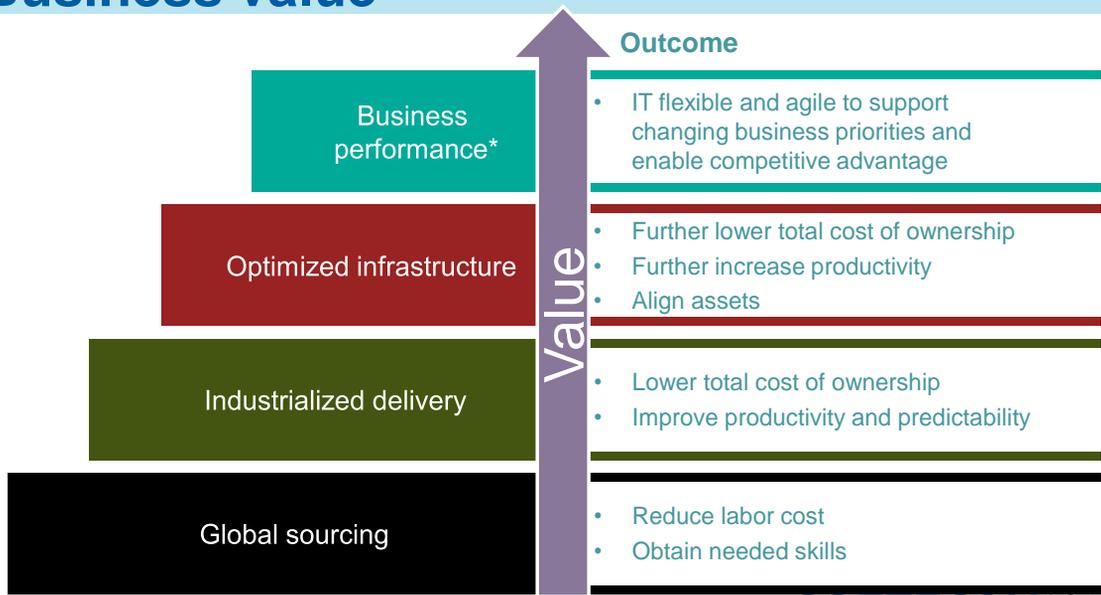


Source: Horses for Sources. State of Outsourcing in 2011. May 2011. BPO – Business Process Outsourcing, ADM – Application Development and Maintenance, ITO – Information Technology Outsourcing

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5

Business value



*More benefits are achieved if applications are optimized simultaneously.

6

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Off shoring – Market trends

Sourcing Management

- Focus on costs is still the number one business imperative; however, top two reasons for organizations outsourcing are achieving speed, agility, flexibility or innovation and access to technical or industry specific expertise and skills
- The complexity of governance is increasing as the buyers believe that to obtain innovation, governance must be recast as a mechanism to promote creativity and new thinking, not routine reporting and escalation
- Outsourcing advisory firms/management consultants as well as peers of buyer organization increasingly influencing decision-making of buyers of outsourcing
- Buyers looking increasingly at bundled IT/BPO options

Regional and Technology Influences

- Industrialized and cloud services, and technologies, such as virtualization, have gained momentum. This has led organizations to increasingly bundle services to take advantage of economies of scale and a simpler accountability structure
- Industry-specific offering to continue to increase, specially as buyers feel that the providers should improve their knowledge about the client's business and industry
- BPO vendors focus on strengthening operational excellence capabilities, platform BPO assets, and business analytics services
- Industrialized services and nonlinear delivery models are core to providers' visions for achieving profitable growth

Deals

- Increased activity in integrated outsourced deals and new engagement types (e.g. . Software as a Service)
- The high activity in outsourcing was dominated by ITO market
- While outsourcing revenues are being challenged with smaller deal sizes and term lengths, in general the usage of outsourcing models is rapidly increasing
- Although numerous pricing models are present in the marketplace, fixed-price models dominate buyer preference for now, and pay per use is the second-most-preferred model
- Enterprise market gears up for an aggressive spike in scope-expansion across maturing functions

Global Sourcing

- Global Outsourcing Means More Offshore and Nearshore, and Less Local
- Provider consolidation will continue
- As the need to support a customer's multicountry and multiple business unit need evolves, BPO vendors are creating the necessary infrastructure to service these needs
- Emerging economies such as India, China, and Brazil continue their growth and business volumes increase and provide additional opportunities
- Service providers remain optimistic of new emerging delivery destinations such as Egypt and South Africa

Agenda

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Market Sizing and Forecasts

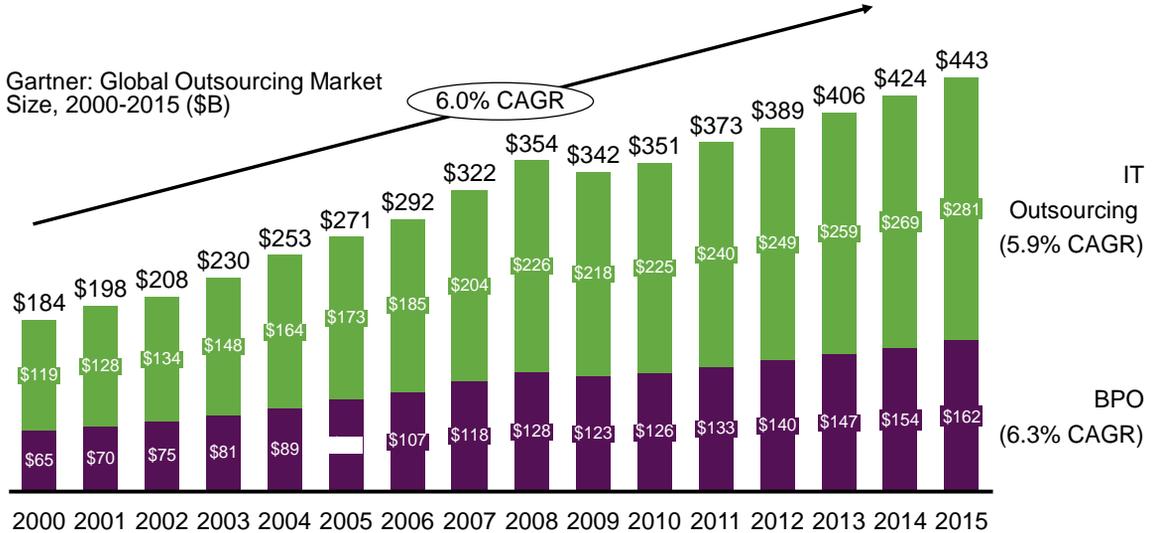
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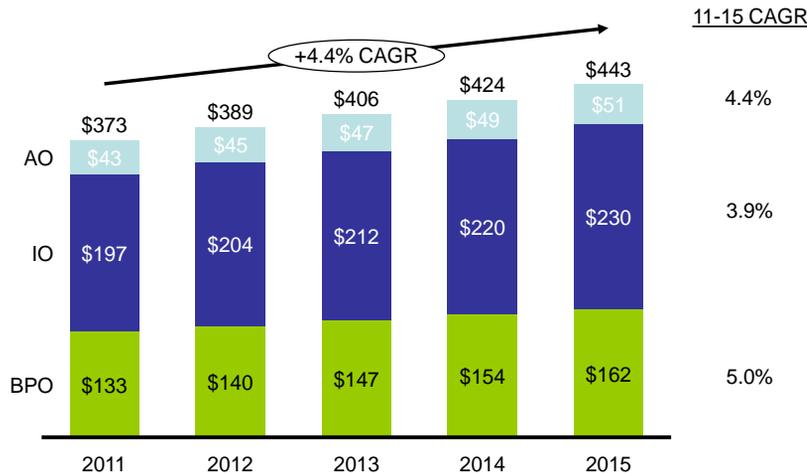
Since 2000 and including the forecast period, BPO has grown at a CAGR of 6.3% and IT outsourcing has grown at a CAGR of 5.9%



Source: 2000-2006 from Gartner, Inc., custom inquiry, April 2011; 2007-2014 from © Gartner, Inc. Forecast: IT Services, 2008-2015, 2Q11 Update. June 16, 2011.
For definitions, see notes

From 2011-2015, Gartner estimates that the outsourcing market will grow about 4% annually

Gartner: Global Outsourcing Market Size, 2011-2015 (\$B)

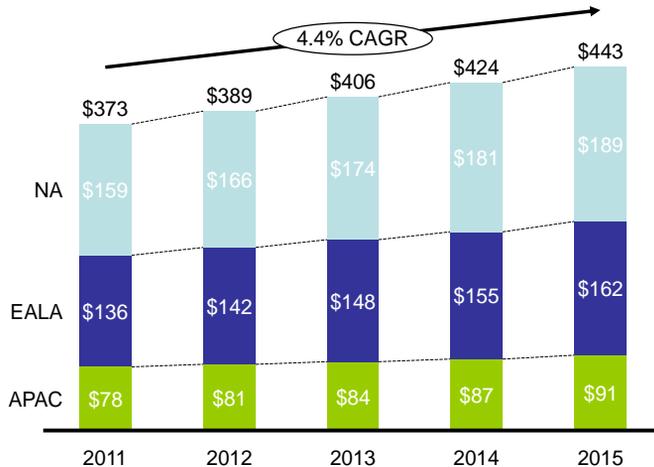


- Outsourcing forecast shows a return to a positive growth in 2010 and beyond
- Growing client demand resulting from the changing ITO delivery model (cloud, consumerization, industrialization and so forth) will feed accelerating ITO growth rates
- The opportunities for innovation through ITO engagements potentially will lead to more enhancement or transformation initiatives, which will drive incremental spending
- More BPO deals getting completed as economic growth improves in the developed markets and the increase in transaction volume expected to carry over from 2010

Notes:
Source: © Gartner, Inc. Forecast: IT Services, 2008-2015, 2Q11 Update. June 16, 2011.
AO - Application Outsourcing, IO - Infrastructure Outsourcing

Gartner's outsourcing forecast shows a return to a positive growth in 2010 and beyond

Gartner: Global Outsourcing Market by Region, 2011-2015 (\$B)



Notes:

Source: © Gartner, Inc. Forecast: IT Services, 2008-2015, 2Q11 Update. June 16, 2011.

NA – North America, EALA – Europe and Latin America, Application Outsourcing, APAC – Asia/Pacific

11

10-14 CAGR

4.3%

4.6%

4.0%

- NA
 - Despite the relatively moderate growth rates in ITO market, it is a critical and large market.
 - Key vertical markets poised for industry-specific BPO growth through 2014 will be retail, healthcare, utilities and transportation a
- EALA
 - Focus on IT cost reduction remains a dominant demand driving force in Europe.
 - Although European organizations continue to consider outsourcing initiatives primarily as a means to achieve IT and cost optimization,
 - For newer services, such as knowledge process outsourcing, there is demand for legal process outsourcing and analytics
- APAC
 - Strong economic growth in the Asia/Pacific region, led by China and India and substantially driven by its imports, is leading to a real resurgence of business demand for services
 - The outlook for Asia/Pacific's BPO market remains positive

Agenda

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European Outsourcing trends – Summary

Sourcing Management

- Reducing IT cost is still the main priority driving outsourcing, but quick access to new capabilities to increase business flexibility and scalability and reducing business risk are also key drivers
- In the past, outsourcing was of interest only to large companies, but now organizations of all sizes and with IT budgets of various magnitude are showing interest
- European buyers are moderately satisfied with the quality of their organizations' own outsourcing governance skills and competencies to manage their service providers

Regional and Technology Influences

- Midmarket businesses display a greater willingness to adopt hosted infrastructure and platform solutions than small businesses
- UK, Germany and France have strong propensity towards SaaS and Cloud Computing Services
- French companies no longer believe it is critical to maintain IT operations in-house, and instead want the improved efficiencies with associated cost reductions

Deals

- Reduced outsourcing activity in the UK and Germany in the first half of 2010 has caused an overall decline from the same period last year
- However, the region is moving out of declines and showing strong growth particularly for Total Contract Value
- The 2009 contract renegotiation peak is over, but organizations are planning for, and implementing, high-impact initiatives.
- Expected Renewals from Jan 2011–Dec 2013 to be at \$118 billion opportunity in Western Europe

Sources: See Notes

Global Sourcing

- More organizations are utilizing offshore outsourcing
- Most Indian players are recruiting local country or practice-level leadership, ramping up and opening new nearshore centers, training offshore delivery staff on language and culture and tweaking business models to accommodate lower offshore ratios.
- The countries of Central Europe (CE) remain competitive nearshore locations
- Latin America is viewed as a key nearshore delivery center for IT services, which raises attention to the IT services sector for investment and government support

Agenda

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The enterprise market gears up for an aggressive spike in scope-expansion across maturing functions

% Buy-side organizations already outsourcing and intending to increase scope over the next 12 months



Source: HFS Research and the London School of Economics Outsourcing Unit, 2011
Sample: 277 Buyers of Outsourcing Services

Source: HFS Research. [HFS Webinar: HFS Live and Unfiltered, Part 1](#). August 2011.

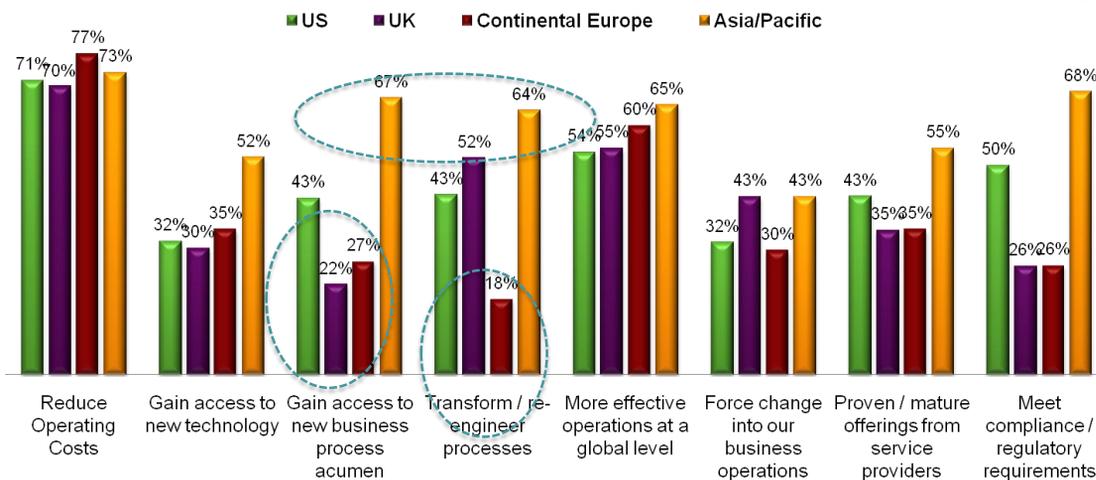
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Europeans want to drive out cost and globalize – *without changing their processes*

How important are the following business DRIVERS behind your company's IT outsourcing and BPO decision-making this year?
Answer = Very Important

Source: HFS Research and the London School of Economics Outsourcing Unit, 2011
Sample: 347 Buyers of Outsourcing Services



Source: Horses for Sources. State of Outsourcing in 2011. May 2011.

16

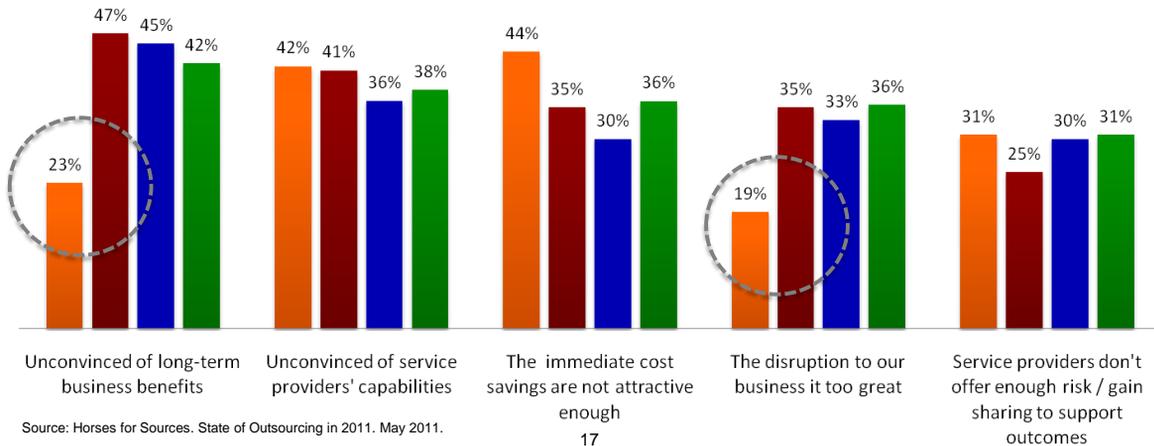
Small Companies much more open to rapid change

Factors PREVENTING organizations from IT outsourcing or business processes over the next year
(Proportion of concerns which are "very important")

Source: HfS Research and the London School of Economics Outsourcing Unit, 2011

Sample: 347 Buy-side Organizations

■ Less than \$500m Revenues ■ \$500m - \$1000m Revenues ■ \$1bn-\$3bn Revenues ■ \$3bn+ Revenues



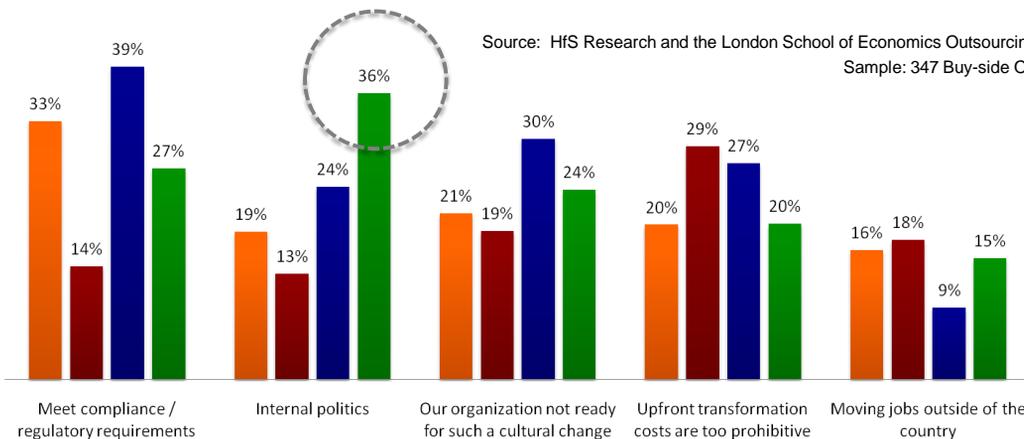
17

Internal politics hold back the largest corporations

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Agenda

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19

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So What to Expect?

- Shift toward cloud services will change outsourcing portfolio strategy of buyers as the structure of cloud services will result in combining what traditionally have been “discrete” silos (e.g. data center versus application outsourcing).
- Impact on outsourcers will be to restructure not only their service delivery options to cloud-based options, but their sales model and service delivery structure
- Recalibration of labor rates to lower levels, due to use of lower-cost locations and off shoring
- Change the pricing models from “per man day” to “per output” or “fixed” price
- Increased transparency of delivery models
- Increased rigor in delivery methodology
- Availability of more low-cost, highly automated offerings
- Get ready for market consolidation
- First deals are coming back in house

20

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And future of IT in Slovakia?

