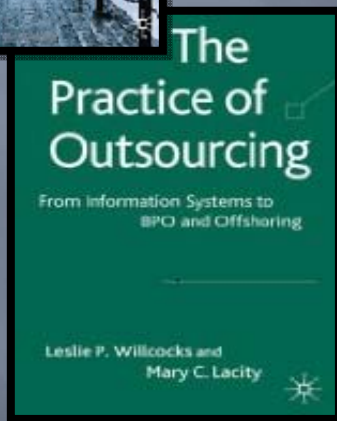
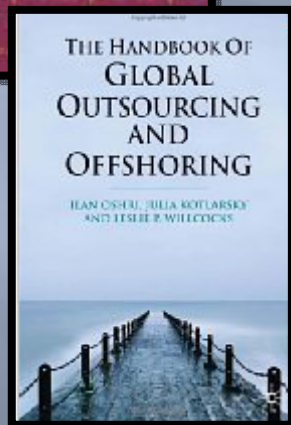


Outsourcing Business and IT Services:

A State of The Art Report
By Mary Lacity and Leslie Willcocks



London

Friday June 11th 2010

**Presenter: Professor Leslie
Willcocks**

**The Outsourcing Unit
London School Of Economics**

Agenda:

- 1. How has the global economic crisis affected the outsourcing market?**
- 2. Is China offshoring's sleeping giant?**
- 3. What are (still) the foundations for effective outsourcing?**
- 4. What would suppliers say to clients – if they could?**
- 5. Can the (UK) public sector improve its record?**

1. How Has the Global Economic Crisis Affected the Outsourcing Market?



IT/BPO Outsourcing Market

1990 - \$9	billion	Dataquest
1994 - \$28	billion	Dataquest
	\$50 billion	The Yankee Group (IT global revenues)
1995 - \$76	billion	IDC (IT global revenues)
2000 - \$121	billion	IDC (IT global revenues)
2004 - \$154	billion	Kern et al. (2002)
2006 \$200+	billion	Willcocks et al. (IT: ITO +BPO+Offshore)

Global

2009 \$250	billion	ITO
	\$145 billion	BPO (\$55 billion = offshore ITO/BPO)
2009-12 growth rates		ITO – 5-8% pa BPO – 7-12% pa

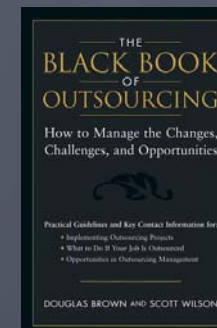
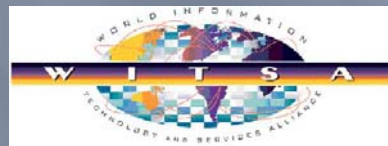
Asia Pacific (exc. Japan)

2009 \$49.9	billion	ITO (Japan \$22b.)
	\$19 billion	BPO
2009-12 growth rates		ITO – 5-10% BPO – 8-14%



Industry/Government Research

- Organizations, governments, and research firms track ITO & BPO
- Research methods are not always evident
- Numbers are not precise and often vary across firms
- Numbers are not always up to date





Michael Corbett

Client Organization Effects

- **February 2010 Report**
- **IAOP polls its membership of clients, suppliers and advisors on current trends;**
- **Top trends associated with the economy:**
 1. *Delayed deals are moving forward* : Sign of cautious economic recovery
 2. *More focus on value, not just price* which some clients realized damaged the business value of outsourcing
 3. *Short term contracts* as clients are still skittish to make long term commitments
 4. *Uncertainty leads to consolidation of suppliers*





Client Organization Effects

Allie Young

- **March 2010 survey**
- “The survey showed that when the economy recovers, 85 percent of organizations anticipate that their spending with External Service providers (ESP)s will increase or stay the same.
- In 2010, the overall mean average for spending with ESPs is predicted to increase **7.13 percent**.
- Variation by country; for example, India users expect to increase spending by 17.4 percent, and Japan users expect a decrease of 1.5 percent.

Source: <http://www.connectitnews.com/usa/story.cfm?item=4187>

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Peter Bendor-Samuel

Client Organization Effects

- **Fourth Quarter 2009 Report**
- **Everest Tracks ACV (Annual Contract Value)**
- **Compared to 3rd Quarter 2009, ACV was up 72% to \$4 billion, mostly because of a few megadeals;**
- **40 Major Captive centers announced—14 in India, 18 in rest of Asia**

“The outsourcing and offshoring market witnessed continued trends of global recovery as evidenced by sustained global transaction activity lead by buyers in the US and Europe, continued captive growth, increased hiring by Indian Suppliers.”

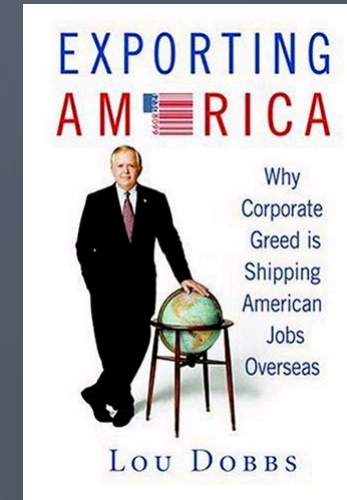
Source: <http://www.earthtimes.org/articles/show/everest-q4-report-outsourcing-market,1159361.shtml#ixzz0g08MptaQ>



Public Perception Effects



“repeal every tax break and loophole that rewards any CEO or corporation for shipping jobs overseas...”



Offshore Outsourcing in the General (USA) Consciousness

Table 1

Offshoring of U.S. Jobs to Low-Wage Countries

Profession	Estimated	Projected		
	2003	By 2005	By 2010	By 2015
Art, design	2,500	8,000	15,000	30,000
Architecture	14,000	46,000	93,000	191,000
Business	30,000	91,000	176,000	356,000
Computer	102,000	181,000	322,000	542,000
Legal	6,000	20,000	39,000	79,000
Life sciences	300	4,000	16,000	39,000
Management	3,500	34,000	106,000	259,000
Office	146,000	410,000	815,000	1,600,000
Sales	11,000	38,000	97,000	218,000
Total	315,300	832,000	1,679,000	3,314,000

NOTE: Numbers are cumulative and have been rounded.

SOURCE: "Near-Term Growth of Offshoring Accelerating," by John C. McCarthy, Forrester Research Inc., May 14, 2004.

Public Perception Effects

Table 1
Words matter

Business Round Table Response

Words to lose

Competition
 Retool
 Protectionism
 World trade
 Long-term growth
 Global trade
 Cheaper
 Forced to
 Cost efficiencies
 Making our budget
 Do more with less

Words to use


Growth
 Re-make
 Isolationism
 Working with the world
 Sustained growth
 Trade
 Specialized
 Take charge
 Meeting customers' needs
 Meeting our needs
 Do more with more

Source: The Business Roundtable. Comprised of CEOs of top US companies

Mankiw, N.G., and Swagel, P. (2006), "The Politics and Economics of Offshore Outsourcing," *Journal of Monetary Economics*, Vol. 53, pp. 1027-1056.

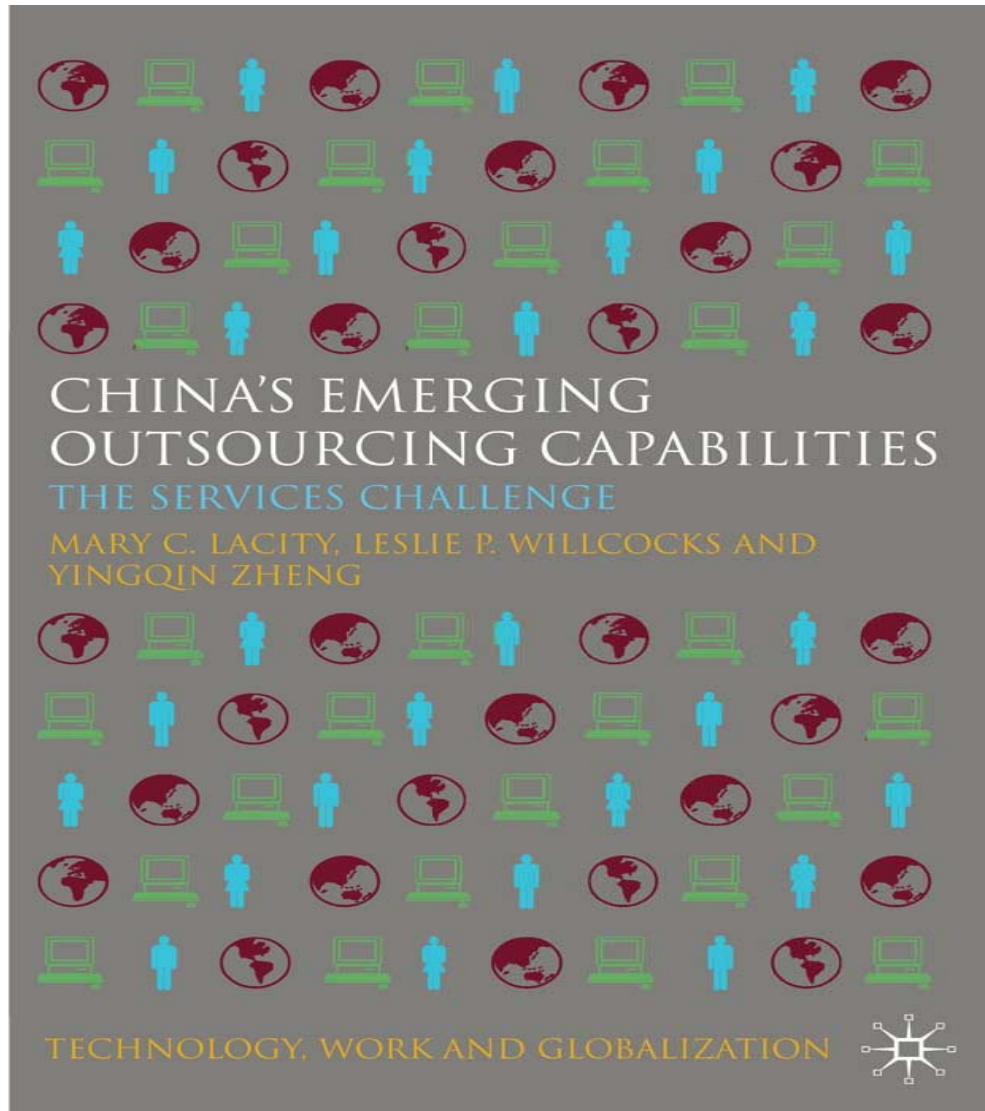


©LWillco


 "(Kerry) wants to build a wall around the country and to isolate America from the rest of the world."

2. Is China Offshoring's Sleeping Giant?

Recently Published



Where Will The Global Dynamism Come From? *Source: Willcocks et al (2010)

Pressure 1: Large Indian players moving up the value chain, bestshoring, acquiring, moving into new sectors. Recession makes acquisitions likely

Pressure 2: Large players offering 'multi-tower' - IT, HR, Procurement, Finance, Administration....

Pressure 3: Client pressure toward multiple suppliers that are better managed and bound in

Pressure 4: Developing outsourcing services in many countries - alternative, improving supply from over 120 increasingly ambitious centres around the world

Pressure 5: World economic and business pressures exert continuing downward pressures on costs, but also innovation, exacerbated by recession 2008-10

Pressure 6: Managing the sub-contracting....and its hidden costs

Pressure 7: Unending search for (a) new sources of skill (b) better labour models (c) at more attractive prices

How do these fit with China?

Country Attractiveness:



1. Costs

(attractive)

- Labour, infrastructure, corporate taxes

2. Skills availability

(strong, but see later)

- Skills pool, vendor landscape
(OS = 1.2 m. people, 6637 suppliers in 2009)

3. Environment

(very good)

- Government support, business environment
living environment, accessibility

4. Infrastructure

(very good)

- Telecoms and IT, real estate, transportation,
power

5. Risk

(several to be managed)

- Security, Disruptive events, macroeconomic
intellectual property

6. Market potential

(high potential but with
some barriers – see later)

- As captive, outsourced, or as ITO/BPO
supplier to local regional market

SWOT Analysis of IT/BPO in China



Strengths

- Skilled workforce / education system (e.g 267,000 IT graduates in 2007)
- Expertise in new technologies
- Government support & political environment
- Comprehensive IT Infrastructure
- Cultural familiarity to APA countries such as Japan & South Korea – historic markets
- Low cost advantage to continue

Weaknesses

- Short history in BPO/ lacking experience
- Service providers cannot compete for mega-deals
- Lack in English proficiency
- Weak in leveraging western relationship globally
- Undeveloped managerial/project experience to run large scale international ITO/BPO services
- Difficult to attract top Chinese talent
- lack of capital (domestic supplier barrier, 2009)

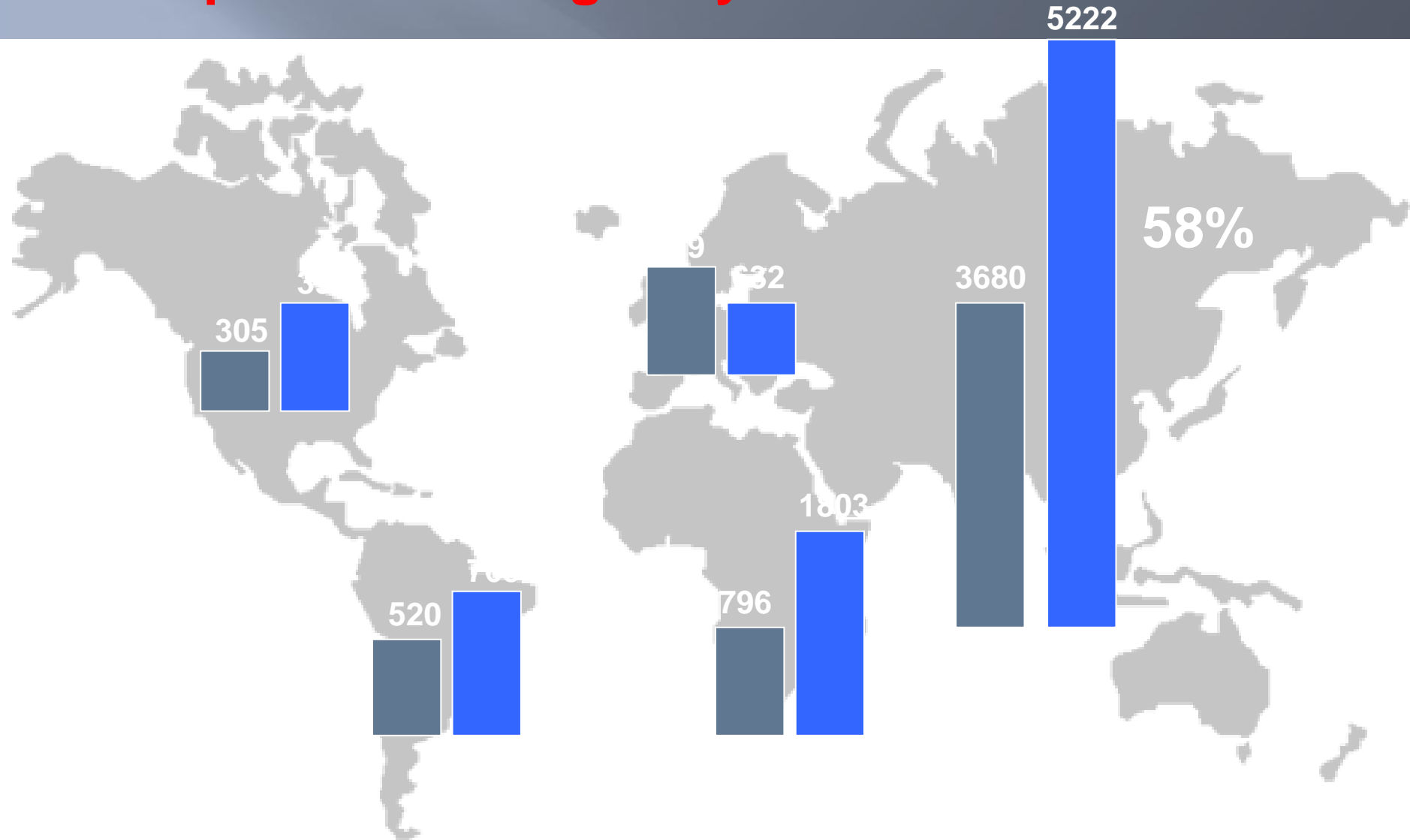
Opportunities

- Vast domestic IT market (8%+ GDP growth)
- BPO, KPO and call center offerings increasing
- Entry into Western markets
- Leverage brand positioning and global branding
- building
- Develop and leverage experience for high-value e.g. Business process / Domain expertise and quality focus

Threats

- Internal competition for resources
- Rising labour costs
- Aggressive global ESPs
- Competition from other countries - India etc.,
- Security / privacy / IP breaches
- Weak/fragmented branding of China and suppliers
- Talent becoming mobile and in demand; staff attrition becoming an issue late 2009

Population changes by 2050



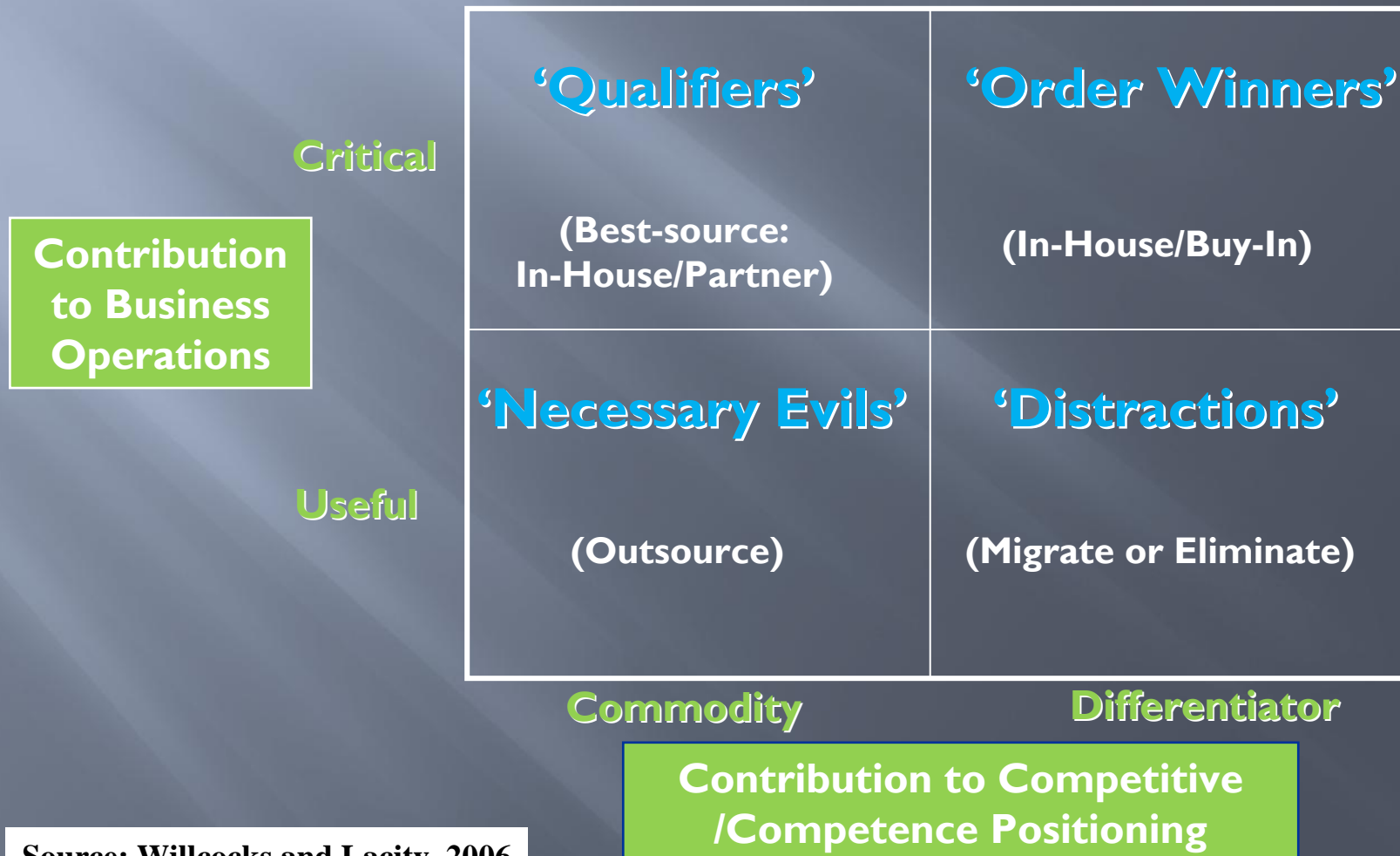
3. What Are (Still) The Foundations For Effective Outsourcing?

1. Identify risks and how to manage them

Major Mistakes Come from Inexperience! Clients Too Often:

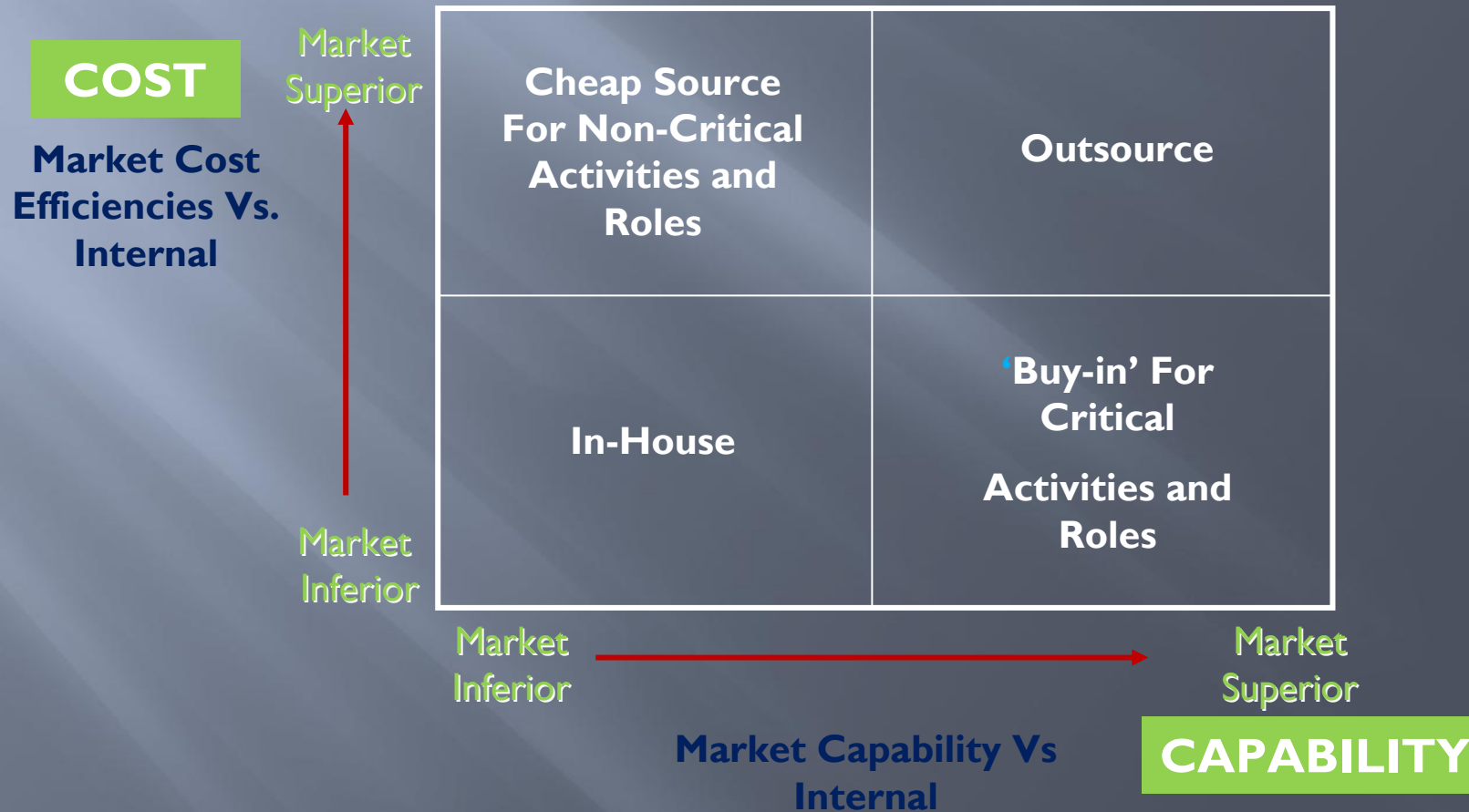
- Outsource problems and areas they do not understand
- Have unrealistic, multiple objectives and expectations
- Do not build a five year overall sourcing strategy
- Focus on cutting spending, not managing differently
- Sign long-term contracts for short-term reasons
- Ask too much of suppliers and not enough of themselves

2. Select the right sourcing options and craft strategy for the next five years



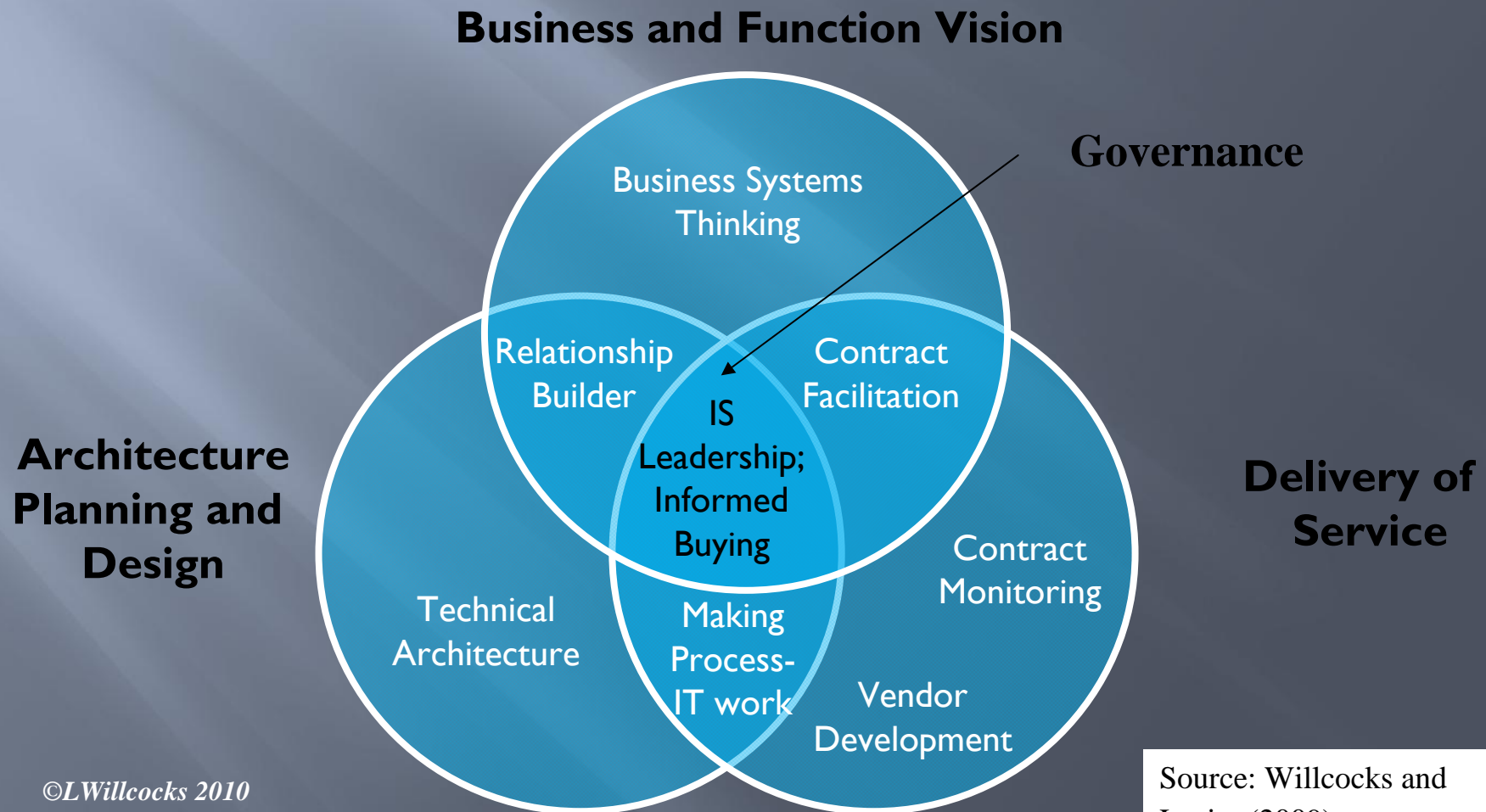
Source: Willcocks and Lacity, 2006

Strategic Sourcing By Market Comparison

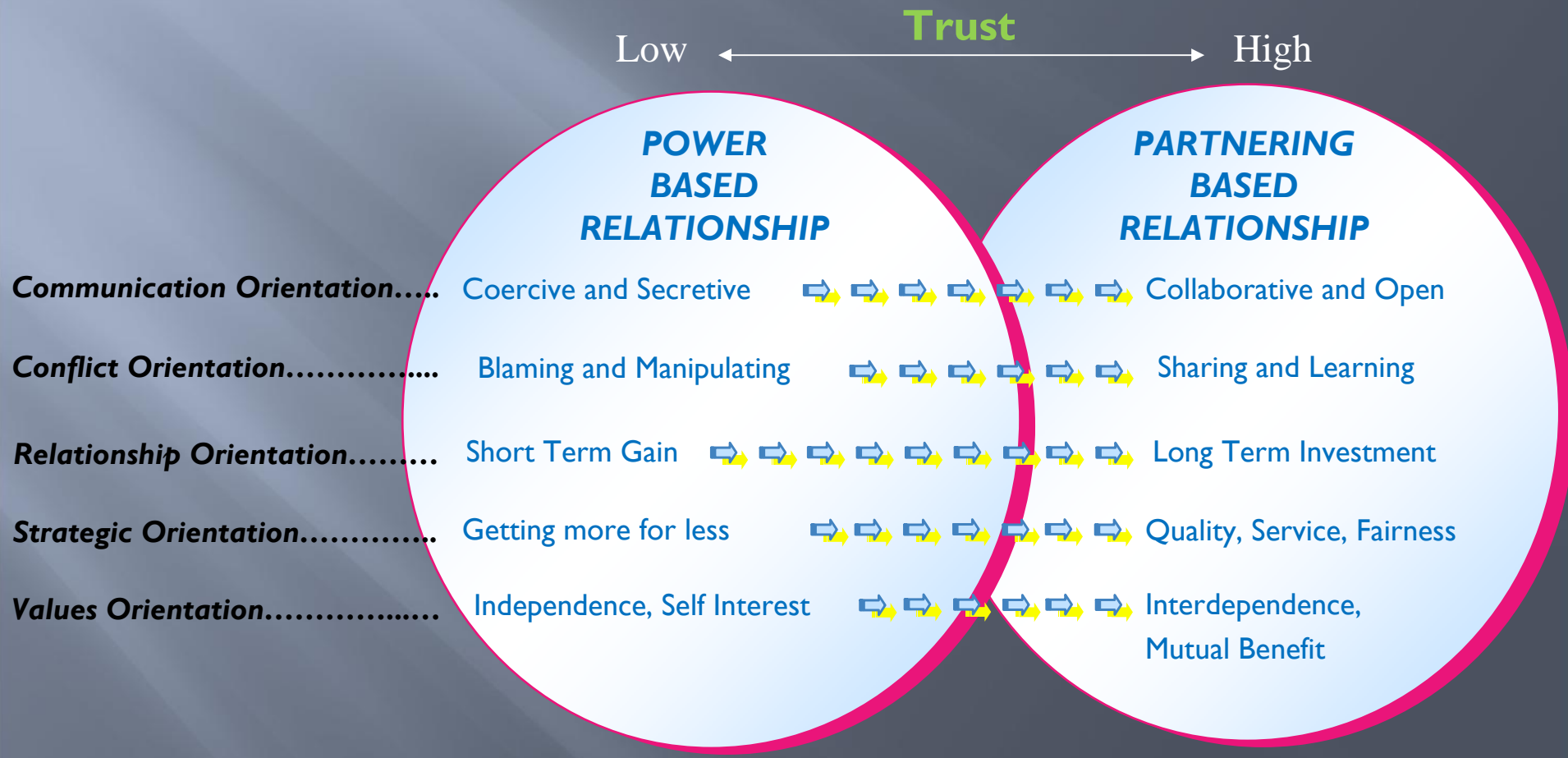


Source: Willcocks and Lacity, 2006

3. Identify the *in-house* capabilities needed to build governance and management



4. Move to a trust-based relationship over time

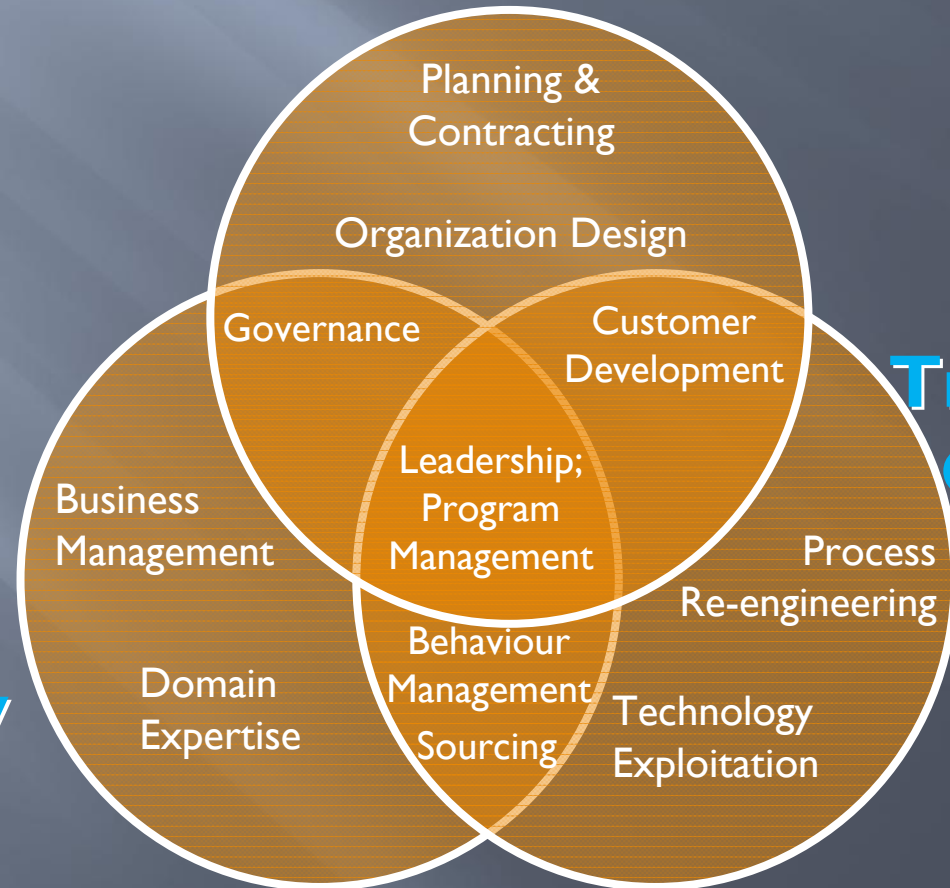


5. Identify the supplier capabilities you *really* need

Relationship Competency

Transformation Competency

Delivery Competency



6. Appoint the right people to relationship tasks.

Example: contract manager 'baddies'

Client

The Administrator

- Passive processing, dissemination and filing

The Adversary

- Supplier is evil and to blame for all things

The Comfort Seeker

- Manages what is most familiar

The Defensive Posturer

- Forces the supplier to make all decisions

The Mouse

- Disempowered and doesn't want to upset the supplier

The Virgin

- Naive and completely trusting

Supplier

The Apologizer

- Waits to be caught out, then quick to say sorry

The Caged Animal

- Can't deliver, but being forced to try anyway

The Freezer

- Tries to block changes, wants routine

The Obliger

- Willing to do whatever the Client wants, often at odds with own management

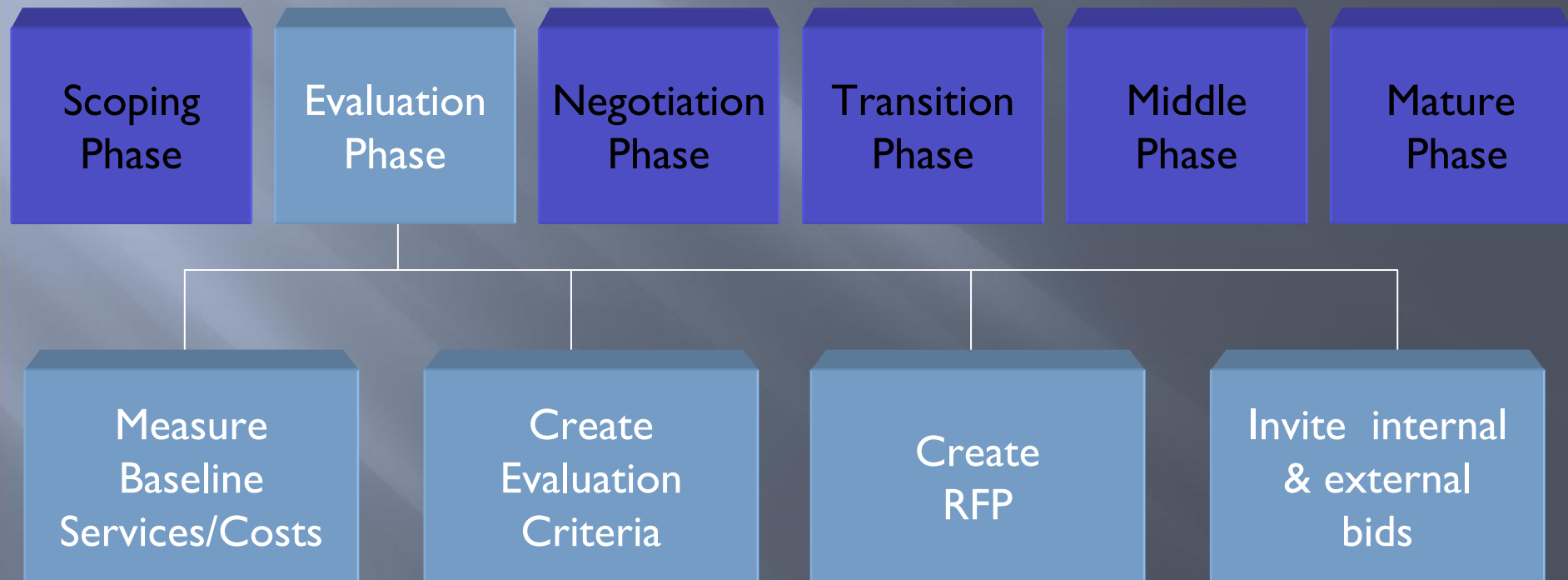
The Shark

- Focused on selling new work, not deliver "old" work

The Chainsaw

- Must make a profit no matter what was agreed

7. Negotiate and manage across the outsourcing life-cycle



8. Benchmark, monitor, and make the back office a true service operation

SERVICE IS.....

**NOT WHAT WE DO,
NOT WHAT WE PROVIDE**

BUT:

**WHAT THE CUSTOMER
EXPERIENCES**

What The Customer Experiences

Example: Call Centre experiences – Vodaphone, Egypt; Dell, USA



Customer Service - The 'Big Four' Metrics

- Quantity - how many we did, how much time
- Performance - quantity versus target
- Value - did it make business sense
- Quality - did our customers like what we did?

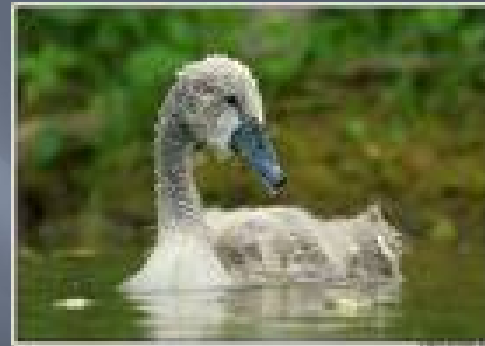
SERVQUAL dimensions:

- 'Tangibles' = Physical evidence- The physical facilities and equipment available, the appearance of staff, how easy it is to understand communication materials.
- 'Reliability' = Accuracy and dependability - Performing the promised service dependably and accurately.
- 'Responsiveness' = Timing and speed - Helping customers and providing a prompt service.
- 'Assurance' = Relevance and Trust - Inspiring confidence and trust
- 'Empathy' = Attention to user - Providing a caring and individual service to customers

4. What Would Suppliers Say to Clients – If They Could?

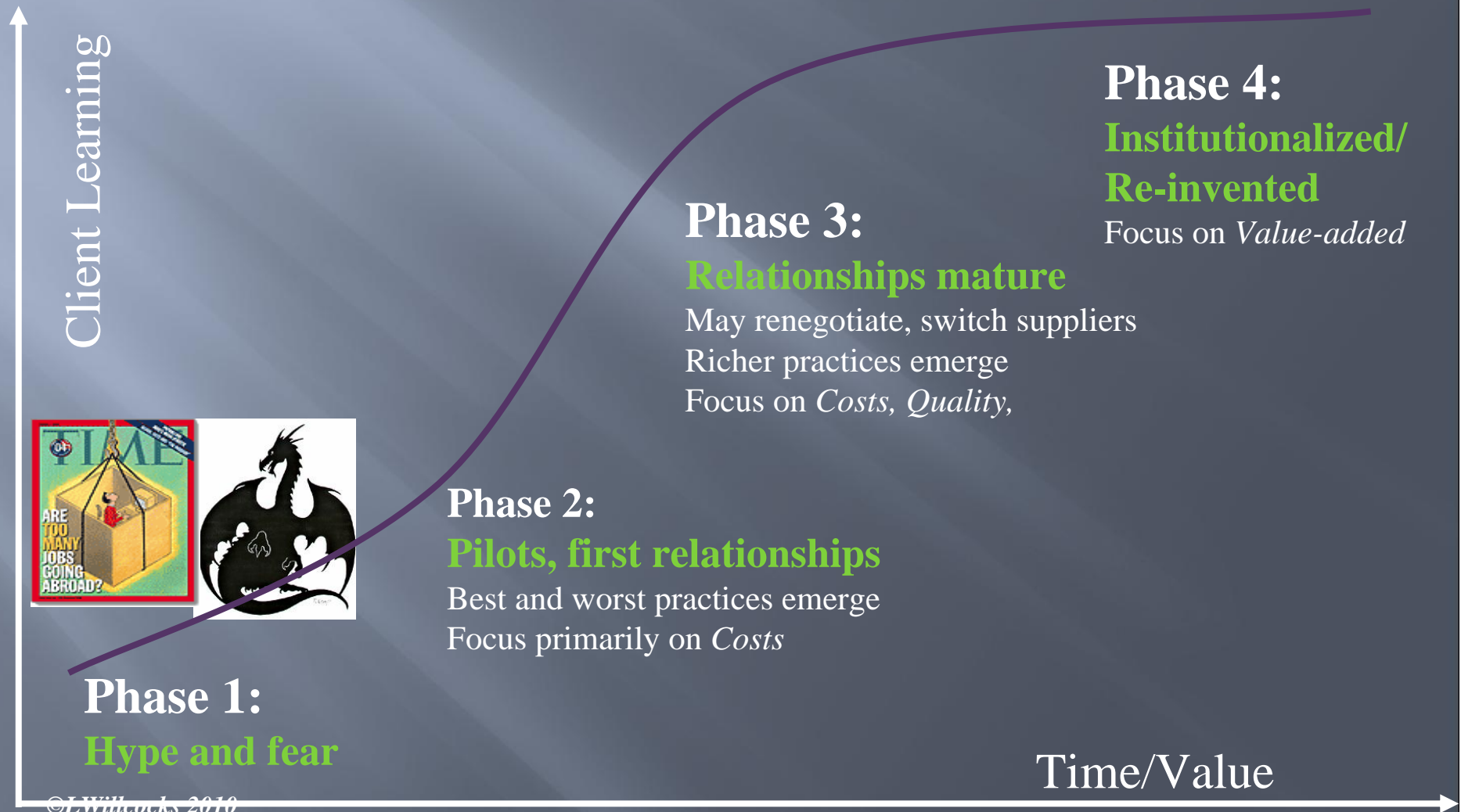
1. We may not want your business.

From your supplier's perspective, are you a Swan or an Ugly Duckling?



- Prestige of client
- Size of current contract
- Potential for additional revenue/good profit margins with this client & other clients because of this deal
- Opportunity to enter into new markets
- Opportunity for knowledge transfer to supplier
- Perceived risks: are you a novice or experienced client?

2. We hate naïve customers



3. We can spot a faux bid

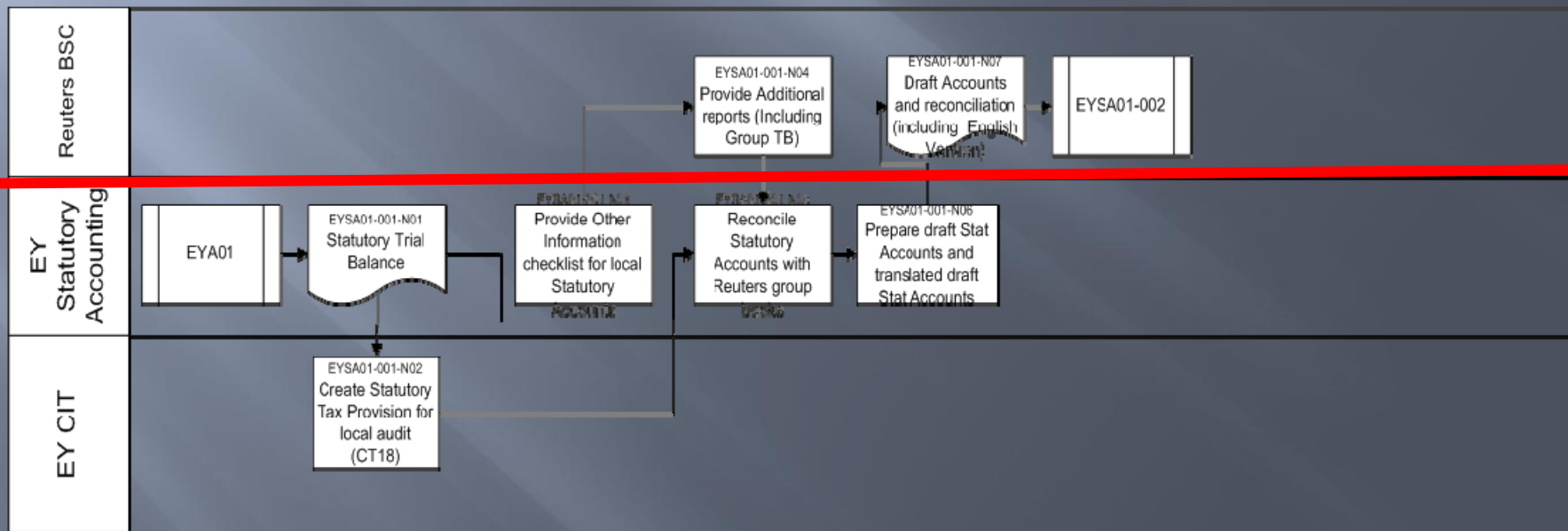
We know when you are using an RFI to pressure your incumbent to reduce prices.



- *The advisor won't let the new suppliers near the client's senior management team.*
- *The incumbent supplier wrote the RFP as evidenced in document properties or footnotes.*
- *The supplier has 2 weeks to respond to an RFP.*

4. Stay on your own side.

🌐 Clients must shift their focus to managing outputs instead of the suppliers' resources and processes.



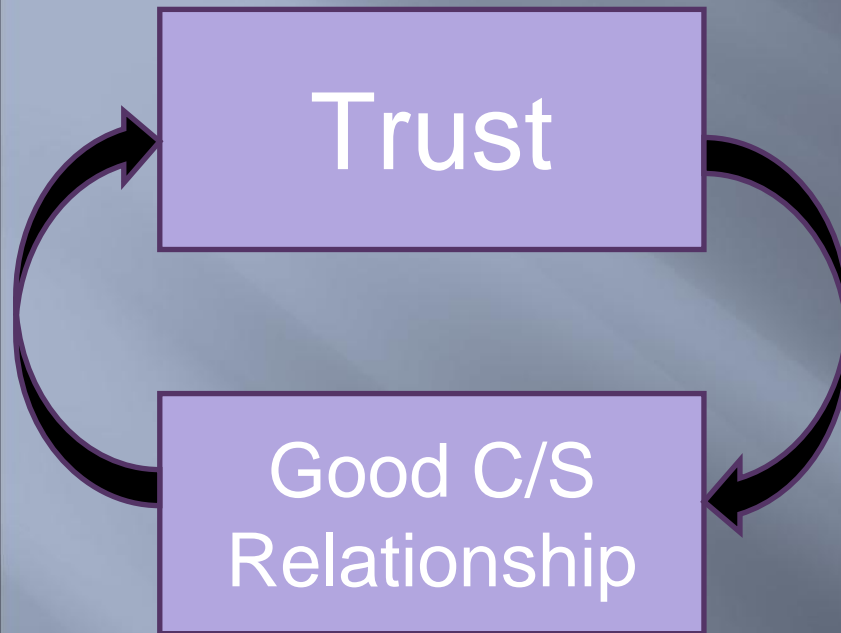
5. The worse our business gets, the worse your business gets.

- Clients must help ensure that suppliers earn a profit.
- Leslie Willcocks and Thomas Kern analyzed 85 of our cases and found that clients are most satisfied when the suppliers earn their target margins!

Supplier	Winner's Curse	12 Cases	3 Cases
	Supplier Earned Margin	19 Cases	51 Cases
		Negative Outcome	Positive Outcome
		Client	

35

6. Trust works both ways



Initial trust is based on ***belief***:

- Trust in outsourcing is the confidence that another will conform to one's expectations and in the goodwill of another.

- Fair contracts help to build this initial view of trust--the spirit of goodwill among parties.

Long-term trust is based on ***behavior***:

- Clients trust suppliers that deliver promised services.
- Suppliers trust client relationship managers who facilitate the supplier's success within the client organization.
- Trust is also built by resolving conflicts fairly
- Trust is about open communications and knowledge sharing.
- Thus, trust is ultimately about ***performance and fairness***.

- **5. Can the (UK) Public Sector Improve its Record?**

UK central and local government 2009-2014

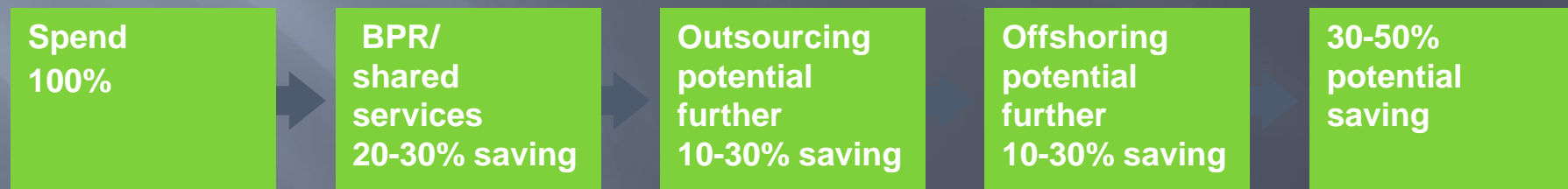
As in the private sector, the pressure is on for back-office and IT cost and service performance*

HM Treasury Report May 2009,

Operational Efficiency Programme: Back Office Operations and IT finds:

- £18 billion back office expenditure across the public sector (exc. IT)
- 20-30% savings possible from BPR, shared services, outsourcing
- £16 billion spent on IT
- 20% cost savings possible 'without compromising quality of front line public service delivery' (page 13)
- cites best practice examples e.g Lancashire county council, DWP, Service Birmingham

Suggested Cost Efficiency Journey (chart 2K page 30)



A Public Sector Strategy for Difficult Times?

(Willcocks et al, 2009)

Plan: Maintain

Sweat The
Assets

GOV - Outsource? Shared services?

*Short Term
Perspective*

Slow The
Strategy

‘smarter, cheaper, greener’

GOV – or is radical change required?
e.g. internal provision/new contracting?

*Long-Term
Perspective*

Underpin Today’s
Business

GOV- Drop decisions? Reallocate resources?
Redirect supplier activity?

Build The
Infrastructure

GOV – e-gov, the G-cloud? Government ICT strategy, 2010?

Plan: Reframe

Thank You For Your Attention!

Any Questions?

Website - www.outsourcingunit.org

Contact - l.p.willcocks@lse.ac.uk