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# SPECIAL FOCUS ON 2010 PREDICTIONS

## Forrester predicts IT spending decrease but outsourcing increase in 2010

*Responding to a still sluggish economy, IT executives in North America and Europe are taking a variety of measures to get more value for the money spent on IT services, according to the latest **Enterprise IT Services Survey** by Forrester Research, Inc.*

According to the survey results, IT contractors and consultants will see the deepest decreases in spending, while systems integration and **outsourcing services will have the most increases**. The survey of more than 900 IT executives and technology decision-makers in Canada, France, Germany, the UK, and the US offers insights into the decisions large companies are making with regard to their IT services and outsourcing. The survey is part of Forrester's Business Data Services (BDS) series, which provides an extensive data set for B2B Market Research professionals' go-to-market strategy assessments.

Key points of "The State Of Enterprise IT Services: 2009" include:

**Infrastructure outsourcing priorities**: When asked what infrastructure services their firm is currently outsourcing or plans to outsource to a third-party company in the next 12 months, survey respondents placed convergent telecommunication/network management services and data center management services at the top of the list.

**Application outsourcing priorities**: Managed hosting services lead the list of application outsourcing priorities, with 44% of respondents currently outsourcing and six percent planning to use managed hosting services in the next 12 months. In addition, the outsourcing of packaged applications maintenance and support services increased from 27% in 2008 to 38% in 2009, and another seven percent of respondents are planning to do so in the next 12 months.

**Systems integration priorities**: Integration work installing or upgrading packaged applications remains a top activity, with 42% of respondents saying they already have a project under way or will hire a consultant for this in the next 12 months. Custom application design and development follows, with 38% of firms doing a project or hiring a consultant to do so in the next 12 months.

**IT consulting priorities**: Forty-three percent of respondents have a security assessment project either already under way or one that will commence in the next year. Infrastructure virtualization and automation programs follow, with 32% of respondents hiring a consultant in the next 12 months or already having a project under way.

"As the global economic downturn puts pressure on IT services spending, firms are taking a range of actions to deal with the cuts," comments John McCarthy, vice president and principal analyst at Forrester. "The pressure to reduce IT spending is going to continue well into 2010. The data shows no quick turnaround — it’s going to be a tough year for services firms as clients increasingly ask them to justify the ROI for IT projects and provide more value for a lower price.”

*Source: RFP Connect, November 2009*

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# Amid the Downturn, Firms Look to IT to Restore Strength

A majority (72 percent) of business and information technology (IT) executives say their organizations place greater value on the IT function today than they did before the economic crisis. What's more, they view IT as an important part of their economic recovery efforts, according to the findings of a global study released today by Accenture (NYSE:ACN) and produced in cooperation with the Economist Intelligence Unit (EIU).

Consequently, executives expect technology spending to increase in their organization either selectively (47 percent) or across the board (10 percent) in the next 12 months. Further, and perhaps surprisingly, non-IT executives appear even more bullish than those directly responsible for IT, as 61 percent anticipate technology spending boosts.

Confidence appears to be highest in the United Kingdom and Ireland, where 63 percent of respondents overall expect increased investment, with nearly as much momentum shown in the United States, Spain and Italy. The survey was conducted in the United States, United Kingdom, Ireland, Germany, France, Spain and Italy.

The need to invest in technology notwithstanding, the study also shows that companies will keep a close eye on the returns delivered by IT. Accordingly, the vast majority (81 percent) of executives across all geographies say they are under increased pressure to deliver projects that incorporate more flexibility than was previously required. In the United States, 87 percent of respondents agree with this statement, while in Europe this pressure is felt most acutely in France, the United Kingdom, and Ireland.

The survey of more than 550 executives highlights that cost savings and control remain a key driver when it comes to IT investment decisions. The respondents identified three measures as most effective in reducing the cost of implementing IT projects: Ensuring the stability and business relevance of project requirements; the replacement or rationalization of existing systems; and movement to open platforms.

"The results of the survey show that firms recognize the need to invest in technology to defend and accelerate their competitive position, even in difficult times, which has not always been the case in the past," said Keith Haviland, Accenture's Global Managing Director for Systems

Integration Consulting. "The turmoil over the last 18 months has underscored the need for further flexibility and scalability to stay ahead in business and drive agile business change."

In terms of specific areas of investment, IT leaders have a much clearer idea than their business counterparts with regard to priorities for new projects over the next year. By far the most pressing priorities of IT chiefs are for server virtualization and consolidation (44 percent), whereas business managers in general rank virtualization as important as customer relationships and service. While acknowledging the importance of customer relationships and service, IT chiefs are also expecting significant funding for e-business (32 percent) and service-oriented architecture (SOA) projects (31 percent).

Technology performance metrics and clearer definition of risks are also taking on greater importance. Over three-quarters of executives at global firms now use either financial, productivity or progress metrics to measure the performance and benefits of their technology investments. Additionally, 27 percent of IT executives now use a specific methodology or governance framework to assess the business impact of their IT investments. However, in around half of cases of those surveyed, metrics are still only partly implemented. In about one-third of the firms surveyed, metrics are still not being used at all.

"Just how indispensable IT has become to business survival and leadership is proven by the anticipated increase in investment over the next year, despite the challenging economic conditions," Haviland said. "While other operational budgets are being slashed, global firms look towards IT as a way to re-build strength. Far greater efficiencies and cost savings can be realized through automation across technologies, faster access to the benefits of emerging technologies such as SaaS and Open Source coupled with flexible frameworks of integrated tools and metrics to track returns on investment."

About the Study

To gauge how companies' attitudes toward technology investment in different parts of the business have changed in response to the global financial and economic crisis and to explore how investment may evolve over the next 12 months, the Economist Intelligence Unit surveyed 557 senior executives from a wide range of industries in August and September 2009. The survey was conducted in the US, UK, Ireland, Germany, France, Spain and Italy. The survey sample was senior leaders, with 55% of respondents being C-level executives such as CIOs, CFOs and CEOs. Two-thirds of the respondents belong to an IT function, with the remainder executing other functional roles. All are knowledgeable about the technology investments being made in their part of the organization or the business overall. The companies surveyed cover a wide cross-section of industries. Fully 62% of them have annual global revenue of more than $500 million.

*Source: SSON, December 2009*

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# 2010 Industry Predictions-Luxoft

Year 2010 will mark the beginning of the economic recovery. The demand for IT outsourcing services will continue to rise with an increased number of outsourcing deals in the second half of the year. Nevertheless, management tactics that were used during times of economic hardship will remain applicable.

***"More for Less" Outsourcing Approach to Continue Into 2010***

2009 has been a year of significant budget and staff cuts to keep revenue from dropping drastically. With the volume of work remaining the same, organizations are faced with tremendous pressure to stay competitive and achieve the best possible value from all initiatives– all with limited IT budgets. Outsourcing is being used to enable business growth under strict economic conditions. Achieving "more for less" became a trend that will continue into 2010. It has led to adoption of more mature service models, where the service provider is expected to take on more responsibility and more risk. Complexity of outsourced projects is rising with more core work being outsourced, faster turnaround times, and domain expertise becoming a 'must have'.

***Tight Budgets Dictate Increased Transparency***

2010 will bring on a slow increase in IT budgets; however they will remain under tight control. To help control budgets, outsourcing clients will demand more line of site and visibility into projects. By increasing their knowledge of the day-to-day activities on the project, clients will be able to make decisions faster, increase the workflow and ensure budgets are met. Sourcing contracts and projects will also be fast tracked for quicker turnaround times and more precise actions, contributing to a manageable bottom line.

***Change of Focus and Incentives***

In the current economic environment companies will shift their focus away from long-term contracts to project-based assignments that will deliver tangible results within a shorter timeframe. In the process they will also consolidate their vendor portfolios, turning to a short list of strategic vendors versus employing hundreds of different vendors. By becoming more strategic in their vendor choices, companies will be able to ensure projects are in line with company expectations and deliverables. Outsourcing providers who can link business and IT strategies and plans will come out ahead. Results will be the main focus of payment, not the effort put into each project.

***"Recession-proof" Vendor Attributes***

A selection of customers polled to determine if the current state of the economy has caused changes in the client's expectations for their vendors, as well as any changes in the service provider selection criteria. Despite cost cutting pressures, technical skills and cultural fit were determined to remain a top priority when choosing an outsourcing provider. In addition, thought leadership is becoming increasingly important and is quickly being considered a key requirement alongside technical and industry expertise and price.

### *"Curve Out" Deals*

"Curve out" is a new type of outsourcing deal that is currently emerging on the market and will grow in the year to come. "Curve out" involves outsourcing of an entire product or service unit. A company might shut down a particular operation to remain cost competitive, but want to keep it in its portfolio. An outsourcing vendor would then be invited to take over the operation, while providing a competitive, well balanced pricing structure. This formula plays out well both for the client and the vendor: the client is able to retain the operation, at the same time allowing the vendor to commercialize it for its own purposes.

### *"Hot" Areas for 2010*

In the New Year, there will be a few key areas that will increase demand for outsourcing services. Investment banking is a very dynamic industry with a number of new government regulations being imposed upon companies at a rapid pace. Due to this increase in regulations, many of the systems currently in place will have to be changed in accordance to these new standards.

Another "hot" area for 2010 will be in the energy field. With the notion of "smart-energy" becoming vastly important in the next few years, the demand will rise in the area of renewable energy technology development. Companies that possess expertise in the development of smart devices will be ahead of the game.

2010 will be the year of technological advancements in the social media space as well. We will see less restrictive Social Media Application Programming Interfaces. More and more social media companies will be allowing developer companies to make use of existing functionality. Thus, there will be a whole new wave of mobile and web applications that will add on to the functionality of social networks. These new applications and platforms, along with further improvements in RFID tags and Natural Language Processing technologies, will bring the world of social media onto a higher level.

Cloud computing, especially SAAS applications and cloud platforms from Amazon and Google, will establish itself as an important platform for the outsourcing industry. Many companies are already increasing their use of cloud computing and will continue to expand these services as more companies realize the cost cutting benefits of working in the cloud and how it can aid their recovery from the economic crisis. Cloud computing is going to become increasingly important for the outsourcing industry in the areas of client-vendor relationships and communications.

An accelerated shift to business process driven software architectures such as SOA will demand outsourcing companies establish hi-end practices around off-the-shelf component suppliers in the areas of SOA Middleware, BPM, Business Intelligence and specifically in-memory analytics and Data Integration. Emerging technologies that enable real-time, automated decision support, such as Complex Event Processing (CEP), will become more widespread and will promote new types and methods of designing software systems that require tighter understanding of business domain and the ability to work with business decision makers.

*Source: Euroinvestor, December 2009*

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# Insights and 2010 Predictions for the Outsourcing Market

*Analysts say that there is going to be a revival of global offshoring with a strong emergence of the SaaS model and cloud computing.*

***Outsourcing Information Technology***

In spite of significantly slowing down the IT Outsourcing market growth, the global economic slowdown has had a moderate impact on ITO in 2009 in the non-secular trends  - such as pressure on pricing, deal sizes, and pipeline uncertainty. Revenue slowdown has been driven by decision making on outsourcing deals being subject to disruption when management teams are distracted with shocking news flow.

While the economic slowdown is usually good for offshore adoption, it seems bad for overall IT spending, which will continue creating an overall mixed effect on offshore spending.

Increased near-term cost-optimization pressures will drive a continued decline in mega-deals; increase in competitive intensity for renewals and re-competes will likely be seen.

The application development and maintenance market will continue on its path to increasing maturity. Key suppliers will develop innovative contracting and pricing structures, which will shift more risk away from the buyers. Discretionary spends such as IT consulting, which hit a trough in Q1 2009 will make a slow recovery through 2010, as buyers gradually shift focus to more strategic projects.

Several Indian and multinational suppliers made acquisitions in 2009 for building capabilities or achieving inorganic growth, such as with mergers and acquisitions. These are now reaching critical mass, with acquired capabilities leveraged to win new business or cross-selling existing ADM services to clients of the acquired entity.

ADM suppliers will spend much of 2010 recovering from headwinds such as pricing pressures and anti-off shoring rhetoric.

Infrastructure outsourcing will continue growing at a sustained pace in line with the rest of the IT industry.

The key theme in 2010 will be the emerging modularity in IO services. With nascent innovations such as cloud computing and SaaS, IO suppliers are set to offer buyers more and more modular, plug-and-play services coupled with pay-as-you-go pricing. However, while the SMB segment is already an early adopter, large enterprises will prefer to wait for technical and business challenges to be resolved before they adopt this service delivery model.

Both offshore and multinational suppliers have aggressively built offshore labor capabilities to bolster their IO value proposition. As IO still lags ADM in terms of labor arbitrage adoption, the use of offshore resource pools for delivering IO services will increase.

***Utilizing the strengths of other nations***

2010 will see a revival of growth in off shoring. As the economy recovers, organizations will increasingly drive adoption of off shoring across various lines of business. However, the growth is likely to be lower than historic levels.

An increasing number of companies, especially in Continental Europe, will adopt off shoring. Financial services companies in the United States and U.K. will re-emphasize off shoring as a strategic lever, “given greater certainty around their core businesses.” Suppliers will focus on increasing their offshore mix to cater to increasing buyer demand.

Companies will increase their leverage of high-value services such as decision analytics, data modeling, and research through the offshore model.

Leading companies will actively start evaluating location network strategies. Companies will add new delivery locations in emerging locations such as Africa, and Central and Latin America. While both India and Philippines will experience a growth revival, towards late 2010, this may lead to temporary talent shortages and spikes in wage inflation and attrition. The share of tier-two cities in new activity will continue to be high. This will be most prominent in India and Eastern Europe and to a lesser extent in the Philippines and Latin America.

As the market recovers in 2010, suppliers will see a resurgence in demand for various IT and business process outsourcing services. However, growth rates are unlikely to return to pre-2008 levels. To support long-term growth, suppliers will focus on developing end-to-end capabilities and focus investments on non-traditional areas across functions, verticals, and geographies to de-risk their businesses. Pure-play BPO suppliers will make investments, including acquisitions, to develop IT capabilities. Suppliers will invest in verticals beyond financial services such as retail, healthcare, pharmaceuticals, energy and utilities, and media and entertainment. Also emerging client geographies such as Continental Europe and Latin America, and domestic markets in India and China will witness increased interest and activity.

M&A activity will witness an upswing in 2010. As opposed to acquisitions by suppliers to increase scale, most acquisitions in 2010 will focus on adding adjacent and complementary capabilities across functions, verticals, and geographies. M&A activity will also gather momentum in countries such as the Philippines, China, and Latin America, where the local suppliers are relatively less mature.

In the 2010 infrastructure outsourcing market, India's remote infrastructure management suppliers will continue to deviate from the innovations they brought to the market and instead pursue large buyers in order to compete with multinationals that have increased their offshore delivery centers. IT will also see the continued emergence of modularity in IO services as cloud computing will enable suppliers to offer an increasing array of modular, plug-and-play services coupled with pay-as-you-go pricing.

*Source: Global Services Media, November 2009*

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# The Recovery: What Now for Shared Services?

Over the past few weeks, growing evidence has emerged to suggest that - following one of the most turbulent episodes in modern financial history and, subsequently, the worst downturn since the Great Depression - the global economy is finally escaping from the storm clouds which have engulfed it for at least a year. News that the US had emerged from recession in the third quarter of 2009 came hot on the heels of a report from the IMF which positively glowed with optimism: "The recovery has started. Financial markets are healing and in most countries growth will be positive for the rest of the year as well as in 2010," said IMF chief economist Olivier Blanchard before a meeting of the IMF and World Bank which went on to predict 3.1 per cent growth globally. While some economies remain sluggish at best, the sentiment increasingly pervading the corridors of power is that the worst of the slump has passed and that a global recovery led by the leading Asian trading nations (the IMF revised their prediction of growth in China next year to over 9 per cent) has begun in earnest.

While recognizing the dangers of counting unhatched chickens, it does at least seem that for large-scale organizations the world over the general theme of the day has moved from the urgent fire-fighting which characterized the early part of 2009 towards "recovery mode": having taken the necessary steps to remain above water during the worst of the storm, companies are now working to ensure they remain fit for purpose and competitive during the recovery period while looking to take advantage where possible of the new market landscapes which are clarifying as the sun slowly rises. But how is this clarification likely to manifest itself over the medium term - and, crucially, what then will be the role of shared services during this period of both consolidation and new, broadened horizons?

Perhaps the most obvious impact of the recovery on shared services globally won't be shared-services-specific: improved economic conditions will see organizations enjoying an easier time generally with less pressure to find urgent cost-savings (and thus less pressure on headcounts and discretionary budget). While it's important to bear in mind that the recovery will not take place at the same rate in every corner in the world - hence the emergence recently of the concept of a **"LUV" recovery**, with a slow L-shaped recovery in Western Europe, a U-shape in North America and a V-shaped recovery enjoyed by many emerging economies compared with - and, therefore, some organizations continuing to face much less clement trading weather than others, an improved outlook generally should understandably lead to improved conditions for shared services in particular.

However, global organizations don't have the advantage or disadvantage of operating within one trading climate alone; different geographies and thus different parts of the business will be moving at different speeds, and one of the primary responsibilities for shared services within global organizations will be to cater for these discrepancies - and help to minimize their impact upon the parent organization as the latter seeks to pick up the pace where possible.

"Economists talk about 'V' and 'U-shaped recoveries," says Rick Bertheaud, Managing Director, Procurement at sourcing advisory firm EquaTerra. "The same principle applies internally: how will volumes increase, how fast, in what sectors, in what geographies, etc. The need for effective planning and communication with client organizations is critical. You need to make sure there are explicit conversations around trade-offs between investment to advance-build and SLAs – in light of projected ramp speed."

In many ways the financial crisis and recession has acted as a catalyst for developments that were already well underway within the shared services and outsourcing space. Cost-cutting, increased efficiency, increased agility: all these are advantages already offered by the shared services model long before the bursting of the derivatives balloon made them critical to the survival of even the most august institutions. The ideological shift in the perception of traditional back-office functions which has led to the development of global service delivery operations has only been accelerated by recent events. Now, any companies still conceiving of their back-office as a mere transaction-processing machine are living very much in the past.

Cliff Justice, National Leader of KPMG's Shared Services and Outsourcing group, believes the time has definitely arrived for the back office to be viewed and utilized as a uniting, standardizing and improving force across geographies and functions.

"Think of your corporate functions as an extended global enterprise," Justice suggests. "The skills and capabilities companies will value most [during the recovery] will be both broad and deep around the extended global enterprise. For example, it is imperative to be well versed in how to design world-class operating models not just for the area being outsourced, but for the entire function. Today, organizations also need to understand both the supply-side levers as well as the demand-side levers, since the demand-side is often more effective and impactful than traditional delivery models can address.

Furthermore, he adds, "companies need to break down walls between functions and begin to consolidate operations of key functional areas. Management should begin to think of services as a rational balance of internal and external service delivery capabilities, with a common governance and service delivery framework that may include outsourcing, offshoring and shared services. Companies are now seeking to eliminate redundancy and improve collaboration among suppliers, internal functions, partners and contractors. This involves moving toward a standard set of performance measures and a common delivery platform globally."

This evolution of shared services' role within many organizations will go hand-in-hand with a consolidation of the model's existing responsibility to drive down costs through economies of scale and the ability to leverage specific advantages such as labor arbitrage. This would, of course, always be of great benefit, and particularly so during a recovery when external customers' pockets are of necessity shallower than they might previously have been. However, today's situation - the specific "credit crunch" characteristics of this recession - makes shared services particularly well-suited to performing this indispensable role. The financial crisis and consequent downturn have been game-changing in the sense that the credit-driven expansion strategies which predominated over the past few years, as the bubble inflated, are no longer on the table for most organizations. Enter shared services, stage left…

"Most economists are suggesting that the recovery will be relatively slow due to factors such as high national debt, likely higher taxation, and continued high savings rate among consumers," muses EquaTerra's Executive Director Bob Cecil. "The capital markets are also expected to remain relatively tight. Therefore, companies are realizing that they can't go back to the old ways of doing business – taking on more and more debt to fund growth. Instead they are finding they need to focus on shifting their business models to compete based on cost-effective operations. Shared services is a natural choice for shifting the business model to be more competitive assuming you adopt the model on a broad enough scale. Hence companies will look increasingly toward global, multi-functional shared services."

For some companies, savings-driven transformation won't just be a nice-to-have: as leading industry blogger Phil Fersht pointed out in a recent post, it'll be the only option for many organizations following significant cuts within their existing operating models.

"In reality," writes Fersht, "most businesses are coming out of recession having already cut visible costs to the bone, for example areas where cost can be directly extracted from the business without any form of arbitrage such as travel freezes, headcount reductions from non-critical areas, budget reductions across departments in areas such as marketing or IT, and so on. The next steps are to explore cost arbitrage through labor (i.e. outsourcing), and ultimately process transformation that should accompany any form of outsourcing. Simply put, it's nigh-on impossible to dig out further pockets of cost, without re-wiring the guts of business operations to find new efficiencies…"

Such sentiments are a reminder that a major existential challenge for many existing back-office operations during the forthcoming recovery period lies in demonstrating why they should be retained in-house rather than farmed out to one of the host of providers whose jostling for position pre-crisis has become a savage fight for supremacy after it. Of course this challenge existed long before the fall of Lehman Bros; in the new economic landscape, however, even all the advantages posed by new-generation back-office structures already mentioned in this article might not suffice to keep the outsourcing wolf from the door - and, of course, nor should they, if the organization's movers and shakers deduce that the benefits to be gained from sending work outside the company outweigh those offered by even the most souped-up retained delivery mechanisms.

What to outsource, and what to keep in-house, will be one of the key questions for organizations coming back out into the sun after a year or more of gloom and doom. The challenge of course is judging accurately what kind of corporate structure is best-placed to take advantage of an improving economic climate over the next year and beyond - and, clearly, this will vary significantly from sector to sector and from one organization to the next. As is usual within business, there should be no room for sentiment: even the best-performing retained delivery structures should be cut loose if the business case is compelling enough. However, those companies which do calve off portions of their back office must bear in mind that they run the risk of losing key talent in the process - talent which could prove a huge boon during the vital post-slump recovery period. Retaining the best employees from a no-longer-retained back-office function is an examination which no firm should allow itself to flunk.

"Pay close attention to your human capital – presumably associates that weren't targeted for downsizing during the recession are amongst the stronger performers in the group," advises Bertheaud. "These same individuals will have opportunities outside the organization during a recovery. Organizations need to be thinking about retention and recognition programs as they prepare for growth. [The] worst-case scenario would be to lose your best performers just as business returned."

Some firms, however, will indeed lose some strong performers (and some have already done so): it's an inescapable consequence when the kind of large-scale, widespread transformation currently underway meets the need - sometimes sudden and irresistible - to cut costs. This creates another opportunity for those shared services organizations which aren't forced into cutting headcount (and which can perhaps enjoy increased access to cash after a year of battened-down hatches): bringing in high-quality talent let go by other less-fortunate companies. It's definitely too early to start talking of another "war for talent" - the disparity between vacancies and job-seekers might not be as stark as it was six months ago, but it's still pretty sluggish in the recruitment arena compared with the glory days of 2007 - but as the recovery gathers pace (assuming no further setbacks - and remembering the dangers of assuming anything at all) and, at the same time, underperformers are forced to shed staff, it seems a safe bet that SSOs the world over will begin to come once again to the talent well with increasing urgency - which will of course be good news for those talented professionals who've spent some time back on the shelf as a result of cuts made during the darkest days of the crisis.

Of course, all this optimism may well prove cruelly misplaced despite all the positive signs of recent weeks: deep structural flaws still exist within the global financial environment and the recent injection of over $50bn more into the UK's ailing banking system, and dire predictions on deflation and a consequent threat to consumer spending in Japan, are evidence that at least some of the world's biggest economies are far from home free. The prospect of a W-shaped recession in the developed world has by no means been dispelled so rapidly; meanwhile, ticking time bombs within the insurance and commercial real estate industries have yet to be defused.

As a result, one more challenge for shared services over the next few months (even years) is going to be: how to perform all the roles, and meet all the challenges, highlighted in this article and elsewhere, while at the same time being able to respond adequately to any further economic downturn. Merely because the sun seems currently to be breaking through the clouds is no insurance that those clouds are gone for the foreseeable future. A crucial dilemma for any organization right now is judging how fast and how far the company should be allowed to move onto a recovery footing at all. Rather like generals at war, facing a lull in fighting which could prove permanent or could be merely the prelude to another titanic clash of arms, the problem of how deeply to commit strategic reserves, and where to allocate resources which have been so depleted over the course of the last year's struggle, might well prove the most profound and consequential of all.

Source: SSON, November 2009

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# Other News

## The Ten Largest IT Services Deals in Oct'09

Major contract signing activity in October was focused around the U.K. public sector, with four of the 10 biggest deals announced during the month coming from this market.

The biggest deal involved HM Revenue and Customs (HMRC), the U.K. government's tax authority, which renegotiated its IT outsourcing contract with Capgemini, known as 'Aspire', for the second time in two years, in an effort to further drive out costs. Capgemini and its Aspire team, including Fujitsu, Accenture and numerous ecosystem partners, are now expected to deliver more for less, saving HMRC approximately $180m per year from 2011/12.

In return for the increased cost savings for HMRC, there are also some benefits for suppliers, as all IT spend will now be channelled through Aspire. Although this is clearly not good news for other suppliers wanting to win business with HMRC, Capgemini's team will get better visibility on potential future revenues from the contract in a number of areas, including desktop procurement, data centre services and project services.

| RANK | VENDOR | CLIENT | PROJECT | REGION | VALUE | LENGTH |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| 1 | Capgemini | HM Revenue and Customs | Desktop management | UK | $900m (est.) | 96 months |
| 2 | Fujitsu | Home Office | Infrastructure management | UK | $525m | 72 months |
| 3 | Cognizant | UBS | BPO, infrastructure management | Global | $442m | 60 months |
| 4 | IBM | Datacom Solutions | Infrastructure management | India | $200m (est.) | Not disclosed |
| 5 | ACS | Department of Education | Business process outsourcing | US | $200m | 12 months |
| 6 | Harris | Department of State | Helpdesk management, training | US | $197m | 60 months |
| 7 | Atos Origin | Renault | Application management | France | $195m (est.) | 36 months |
| 8 | Logica | Crown Prosecution Service | Infrastructure management | UK | $181m | 36 months |
| 9 | Nokia Siemens Networks | Unitech Wireless | Network integration and management | India | $180m (est.) | 36 months |
| 10 | Atos Origin | Home Office | Infrastructure management | UK | $160m | 72 months |

**(Source: Datamonitor IT Services Contracts Analytics)**

Unusually, only two of the 10 largest deals announced in October came directly from the U.S. As well as the afore-mentioned activity in the UK, there were major contract announcements in France, where Atos Origin expanded its deal with car manufacturer Renault, and India, where IBM was chosen by Datacom Solutions to provide infrastructure and applications services and Unitech Wireless selected Nokia Siemens Networks to roll out and manage its GPRS core network.

Source: Datamonitor, November 2009

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# US Tax Move Sets New Pace for Outsourcing Jobs Growth

The Obama administration announced in May that it intends to remove tax breaks for US companies that shift jobs abroad and offer tax incentives to those that create jobs at home – a move that is also expected to help the world's biggest economy to tackle currency fluctuation at home. That announcement has opened the race for a presence in the US among the world's leading outsourcing operators mainly based in India and the Philippines.

Many of these operators are setting up operations in the US hoping to gain competitive advantage for business from American firms that will be looking for new opportunities to escape the administration's tax hurdle.

ICT experts say setting up bases in the US, should also help Indian outsourcing service providers to offer an optimal mix of onshore and offshore operations that will suit their clients' needs and drive growth.

In moving to stop outsourcing by US firms, the Obama administration is hoping to stop an escalation in job losses at home that recently passed the 10 per cent threshold despite recent signs of economic recovery. To shield their businesses from the looming loss of tax benefits, some US companies are also moving out to acquire established operators in foreign countries for a possible interfacing of future operations.

Recently, for instance, 15 US investors arrived in Kenya in search of acquisition or buyouts candidates in various sectors including IT. "Kenya is attracting a number of US firms who are looking for top talents in the ICT sector especially in software development. They however do not want to make the moves public because of what is happening back at home," said a senior Ministry of Information official who asked not to be named due to the sensitivity of the matter.

Other than enabling local companies to reduce the amount of money they need to set up base in foreign markets, acquisitions or mergers should enable local companies to ride on the relationships for knowledge and insight they need to do business in the new environment.

Mergers or acquisitions should, for example, help them to spend less money and time marketing their services in the new destinations. That will however require that they involve the equity partners in fundraising efforts that will be required to pull the deals through. US is the top IT and ICT-enabled service exporter, accounting for $270 billion in 2007.

A recent UNCTAD report indicates that the outsourcing business is still heavily dependent on foreign clients even in mature markets such as Philippines.

Major local BPO and contact center operations in Kenya depend on foreign clients with local corporations such as banks, insurance companies and telecommunication operators preferring to have their call center in-house (captive).

A change in the global arena and lack of financial ability to set up offices in foreign countries places yet another hurdle on the path of Kenya's nascent BPO industry that is only beginning to overcome the high cost of international connectivity with the landing of fibre optic cables in July.

More than 50 per cent of India's outsourcing company revenue is expected to come from North American clients, making the movement to the US critical to their continued survival and growth.

"Not only will the US center provide closer proximity and enhance services to clients, the facilities will also enable the outsourcing firms to draw from the local talent pools" reads the report.

As wages continue to rise in India and the US dollar's value decreases against the rupee, it becomes expensive for Indian companies to maintain operations solely in India.

Source: Business Daily, November 2009

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# CSC Awarded Major IT Infrastructure Management Contract by Zurich Financial Services

*Zurich Financial Services has announced an outsourcing megadeal. The company said recently that it has signed a 10 and a half year deal with CSC to supply datacentre and IT services.*

CSC has signed a 10.5 year MSA with Zurich Financial Services Group (Zurich) for managed data center and IT infrastructure services, including data center centralization and server virtualization.

- The MSA provides the framework for country specific agreements in Zurich's operations in Europe and North America and will become effective on the signing of the first country specific agreement.
- The potential LTV is estimated to be worth up to $2.9bn if CSC were to provide all the in-scope services in all the planned countries

CSC and Zurich expect to sign at several country-specific agreement in H1 2010. Take up by countries is expected to be fast: it is envisioned that up to 1,000 Zurich employees could transition to CSC during H1 2010.

The relationship between Zurich and CSC began in July 2004 with the signing of a 7-year, $1.3bn application outsourcing contract. Zurich had awarded separate contracts with for desktop services, Equant for LAN/WAN, fixed and mobile telephony services; and with Accenture and Wipro for application development services

In April 2008, Zurich moved desktop services from IBM to CSC in a 6-year deal valued at $399m to support Zurich's operations in the U.S., Canada, Switzerland, Germany, U.K., Italy and Spain, providing a global service desk, local on-site support, software packaging and distribution to c. 51,000 users.

**Analyst comments:**

In September, CSC announced it had entered exclusive discussions with Zurich. Today's announcement comes just in time for Thanksgiving for CSC. It is also good news for the company, whose fiscal H1 booking were down year-over-year.

In one of the largest IT outsourcing deals to be signed in 2009 (another deal about to be announced between HP and Alcatel-Lucent will be slightly larger), Zurich has put a significant part of its applications estate, its desktops and now its datacenters with one provider. CSC and Zurich's relationship have evolved into the kind of wide scope mega-deal that CSC was successful in securing in the 1990s, and, it must be said, was particularly successful in renewing when this kind of monolithic relationship fell out of fashion.

One thing unusual about this contract is that it started as an application management mega that has expanded in two stages into a full outsource. Usually, mega-contracts start with the IT infrastructure and expand into applications. Zurich has been a landmark contract for CSC as it jumpstarted the operations of the company in Switzerland, and was it first application-centric mega-deal worldwide.

Clearly, CSC has:

- Demonstrated its ability to successfully transfer large numbers of employees (the applications outsource contract in 2004 involved the transfer of nearly 1,600 personnel)

- Shown innovation in the applications work it has done for Zurich, not just in introducing global delivery and reducing operational costs and in increasing flexibility in software component use, but in some more commercial applications development initiatives. It is believed that CSC has doubled its scope of applications work within Zurich since 2004.

Zurich will once again be transferring large numbers of its employees to CSC and once again tasking CSC to make major changes with server virtualization.

The fact that CSC will be making country-specific agreements reflects the fact that, as a global financial services conglomerate, Zurich essentially operates as country-specific businesses across its market segments: the outsourcing initiatives it embarked on in 2003 were also part of a drive to move to a more global business model:

Zurich has been an outsourcing pioneer. One of the key lessons it has learned from its experiences to date is that in a major outsource to expect a level of disruption when moving to a new external service provider: its positive experience with CSC will have been a major consideration in its decision making. The fact that CSC will know the business side through its desktop services wll also help in driving the virtualization program and in encouraging activities such as automated provisioning.

Source: Nelson Hall, November 2009

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# Outsourcing Saving the Newspaper?

*Declining circulation, lower advertising revenues, spread of Internet and rising paper prices are increasingly becoming things of the past. The newspaper industry has become the front-runner in adopting innovative means, like upgrading to a more robust online presence, re-vitalizing the business model and an evolved outsourcing strategy, to sustain in a recovering economy*

The last two years have been extremely significant in the history of the newspaper industry in the U.S. Their publishers have evolved into multi-platform media companies who continue to largely outsource ad production and other non-editorial jobs. Some of the early examples of offshoring have been;

- *MediaNews outsourcing to India to cut costs by 65%**
- *Star Tribune outsourcing Ad production to cut costs***
- *Miami Herald outsourcing work that journalists and copyeditors usually do****
- *Thomson Reuters, outsourced in-house and moved basic Wall Street reporting on U.S., European, and Gulf equities to a new bureau in Bangalore****
- *Associated Press outsourced copyediting and layout work to a company in India****

An article posted on Reuters, “Future of Ailing Newspaper Industry Analyzed in New Report” dated, Monday Mar. 16, 2009^ said, “...The outlook for newspaper publishers is grim. Their business model is broken and advertisers are bailing. Newspaper advertising revenues in the US declined 16.4% in 2008 to $37.9 billion. By 2012, spending will slide to $28.4 billion. Is there hope for this proud medium?”

Very few in the world knew that the newspaper industry was embracing a revolution. It has been eight months since and the newspaper industry has grown stronger and healthier. A recent study conducted by the Newspaper Association of America (NAA) indicate that newspapers have dramatically reduced subscriber churn over the last eight years, with the percentage of subscribers who cancel subscriptions falling to 31.8 percent in 2008, compared with 54.5 percent in 2000, according to the 2009 Circulation Facts, Figures and Logic study.

“Newspaper companies have made substantial progress with a range of new initiatives as they move aggressively to adapt their business models for success across multiple platforms,” said NAA President and CEO John F. Sturm.

Other elements of the newspaper business model reflected in the research include a growth in the number of consumers who highly value the newspaper print product and increase in the number of newspapers outsourcing home delivery. According to the survey results, 15 percent of newspapers outsource their home delivery and 40 percent deliver other publications.
While the print is getting steadier the new business models have also helped build new audience, increase subscriber retention and deliver maximum value to advertisers. Newspaper Web sites attracted more than 74 million monthly unique visitors on average in the third quarter of 2009, more than one-third (38 percent) of all Internet users, according to a custom analysis provided by Nielsen Online for the Newspaper Association of America.

"Newspaper publishers continue to aggressively reinvent their business models, leveraging trusted brands to attract a growing and sophisticated audience in the digital space," said NAA President and CEO John F. Sturm. "At the same time, industry executives have adopted smarter circulation strategies that are growing circulation revenues even though paid circulation numbers are lower. This places the focus where it belongs: retaining core readers who deliver maximum value to advertisers while harnessing digital platforms to broaden our medium's audience and position us strongly for the future."

The newspaper industry is undoubtedly amongst the early adopters of outsourcing in the media space. In a recent development, ImpreMedia, America's No. 1 Spanish language online and print news publisher announced a partnership with Mexico-based Business News Group (BNG) to design, format and produce advertisements and editorial pages for impreMedia’s printed publications.

"This move is consistent with impreMedia's goal to concentrate resources on content creation, audience growth and revenue generation," stated John Paton, Chairman and CEO of impreMedia. "By shifting these tasks to BNG, we reduce the resources required to produce our publications allowing us to invest in the high quality journalism which is the hallmark of our company."

Business News Group - a media and communications services company based in Monterrey, Mexico - will produce ads and editorial pages for La Opinión of Los Angeles, La Raza of Chicago, La Prensa of Orlando, El Mensajero of San Francisco and Rumbo of Houston.

For those who still wonder if there is hope for this proud medium, it is time they fastened their seat belts for a new ride with outsourcing.

*Source: Global Services Media, November 2009*

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# Impact of Cloud Computing on Outsourcers

*Author Nicholas Carr says the rise of cloud computing could take a bite out of IT outsourcing firms—a view also shared by researcher Gartner*

Could some of the big names in outsourcing be among the victims of the much-hyped shift to cloud computing?

As businesses begin to host their IT systems in the cloud – instead of hiring outsourcers to maintain and integrate their systems – outsourcers could start to feel the pain, according to author and technology thinker Nicholas Carr.

Demand for corporate systems integration work – the bread and butter of some outsourcing companies – will dwindle in a world dominated by cloud computing Carr told the Google Atmosphere event in London recently.

Carr rose to prominence with the release of his book *IT Doesn't Matter* in 2003, in which he argued IT is destined to be delivered as a commodity service that is invisible to its users, similar to the way that homes and businesses receive electricity today. His latest book is *The Big Switch*.

Cloud computing allows businesses to ditch internal IT systems and access IT services over the internet from remote systems hosted in the cloud, resulting in far fewer incompatible IT systems that need outsourcers to integrate them he said.

"If cloud computing does not reduce the need for consultants then it has failed because one of the points is to get a much simpler IT infrastructure out there," Carr said.

"Over the long term a lot of difficult challenges in IT data integration will be addressed automatically through standardization of systems in the cloud.

"A lot of their [outsourcers] business is built on the complexity of maintaining internal systems so the more we get out from under that, the more their business will be eroded.

"The result is that some areas of the consultation business will disappear, such as the whole area of systems integration. In the longer term then, my guess is that you will see a major realignment of the IT industry and some of the traditional consulting and hardware firms will make that successful transition and some won't. There will probably be a lot of consolidation, particularly of small and medium-sized companies getting rolled into larger ones. Overall there will be fewer consulting firms."

Increasing numbers of businesses are moving their systems onto cloud computing platforms: analyst house Gartner (IT) says worldwide revenues from cloud services will pass $56.3bn this year and are on track to grow to $150bn by 2013.

However Carr said following the shift to cloud computing – which he believes is as inevitable as the move from localized to centralized power generation – businesses should not expect the same big players to dominate the outsourcing and software markets.

"I think you will see the software companies face big new competitors, such as Salesforce.com, these are the companies that have been built in the cloud and are already beginning to challenge the Oracles of the world."

In the short term, however, Carr believes that outsourcing firms will benefit from businesses need for consultants to help them transition their IT systems into the cloud.

At the same Google Atmosphere event, Jeremy Vincent, CIO of car manufacturer Jaguar Land Rover, said cloud computing had the potential to end a perpetual battle against system complexity faced by IT directors.

"After 20 years the issues of integrating technology and information have not changed despite the billions of pounds that businesses have spent trying to address them," he said.

And speaking at the Sourcing Summit, hosted by the National Outsourcing Association (NOA) in London recently Adrian Quayle, VP of strategic sourcing with analyst house Gartner, said cloud services would eat away at the traditional outsourcing business because so many services deals fail to provide the level of systems integration promised.

"The challenge to outsourcers is that there has not been enough end-to-end service integration and as a consequence a lot of outsourcing deals have not worked well," he said.

"People are keen to move to cloud services as a result of that."

But these predictions were met with skepticism from Martyn Hart, chairman of the NOA.

Hart said there will still be a role for systems integrators for the foreseeable future, predicting it will be a long time before a majority of businesses move their IT systems into the cloud.

One of the major obstacles he foresees is the number of bespoke IT applications used by companies.

"If everyone in a company only used MS Word on desktops then it could be done but companies use specialist applications for their business," he said.

"The more unique the organization, the bigger the problem is."

Hart added that a shift to the cloud would not hit outsourcers too hard as managing technology is only a part of what suppliers do. He gave the example of business process outsourcing deals where a vendor runs an entire part of a company's business, such as the HR department or a call centre, where people management is an equally important role.

Even if most businesses do eventually place their systems in the cloud, Hart believes it will be the established outsourcing companies, the IBMs and HPs of the world, that will be running those cloud platforms.

"Companies looking for potential suppliers are still going to choose someone they trust to run their business and not someone just because they have some whizz bang piece of technology," he said.

*Source: BusinessWeek, November 2009*

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# Outcome based Outsourcing

*All parties in an outsourcing deal agree that Outcomes vs. Tasks is the primary challenge. How outcome-based contracts can help … and whose outcome is it anyway?*

Outcome-based outsourcing is the holy grail of IT services. Both customers and providers agree that if they can figure out a way to tie sourcing strategy to business results everyone will be happier in the end.

The problem with many traditional outsourcing arrangements is that they focus on input rather than output. Just as U.S. health care reform advocates criticize a system that incents doctors to perform tests and procedures with few rewards for the ultimate goal--a healthy patient, some outsourcing reformers say too many IT services deals are myopically focused on tasks or man-hours rather than business results.

Outcome-based contracts--at least, in theory--can change that. "Paying for outcomes is the idea of paying for success toward a desired result instead of paying for individual items like servers or programming hours," says Adam Strichman, an independent outsourcing consultant based in Mechanicsville, Va. "Nobody really wants servers, or switches or a mainframe. They generally want a business outcome, such as faster access to information or an automated delivery system."

But devising outcome-based outsourcing deals that satisfy both the customer and the vendor has proven difficult. Time-and-materials contracts remain the most common outsourcing model in the industry, particularly offshore, says Sandeep Karoor, managing director of outsourcing consultancy Neo Advisory. Fixed-price contracts run a distant second. Outcome-based contracts account for, at most, 15 percent of new deals, says Strichman, and they may only apply to part of the outsourced work.

**Who's Outcome Is It Anyway?**

Part of the problem with this new paradigm, whereby contracts are based on results rather than resource consumption, is in defining outcomes. Every stakeholder has a different desired end state--or two or three. The CEO wants happy customers and shareholders or to be the industry leader. The CFO wants an increase in profitability. The business unit leader may desire best-of-breed systems. And the CIO? He's got a whole list--lower costs, better service levels, increased customer satisfaction.

What may be the biggest problem of all is that the IT service provider has very little control over or connection to any of those outcomes.

**Outcome-Based Outsourcing: Pros and Cons**

**Pros**

* More cohesion of work being delivered

* Freedom from interviewing and monitoring individual staff members

* Ability to incent more innovative behavior from provider

* Potential for higher eventual savings as labor arbitrage is replaced by productivity and synergies between tasks as key savings drivers

**Cons**

* Lack of transparency into how work is being performed

* Little insight into costs of service (unless visibility into resource consumption is maintained)

* Additional administrative burdens associated with root cause analysis (if service is not being delivered as promised) and evaluation of service delivery from outcome-based perspective

--*Source: Forrester Research*

"The measure of success--or outcome--has to be directly related to the success or failure of the underlying services," says Strichman. "It sounds simple, but it can be hard when you start talking about business outcomes. The supplier cannot influence things beyond the supplier's realm of responsibility."

For example, the CFO may want to tie the outsourced application development of a new product to the profitability of that new product, but that may be impossible. The application development provider could design the world's best system two weeks ahead of schedule and a million dollars under budget, but it has little control over other factors--such as marketing, economic conditions, bad management, inept delivery managers, bad press--that affect the profit outcome.

"There are all types of outcome-based pricing," says Strichman. "Sometimes these models have moderate success. Often they have no success whatsoever."

The most common business outcome tied to IT services deals to date is increased customer satisfaction, says Strichman, but that may encourage the vendor to construct customer surveys that will deliver the desired result.

"The belief is that by tying metrics and pricing to the success of the business, both parties now have their goals in alignment," says Strichman. "But the reality is, alignment is not enough; the vendor must be able to influence a significant portion of the costs which influence the outcome being measured. And the metrics must make sense related to the service. Customer satisfaction may have nothing to do with the vendor."

Contracts focused on desired outcomes at the CIO level have a concrete record of success. With these types of deals, a vendor takes responsibility for "end-to-end" IT service levels. "The vendor is responsible to create an entire system--design, infrastructure, network, programming, maintenance and customer support/help," says Strichman. "These contracts are not uncommon and can work. But even that is really, really hard to do."

**Resistance on Both Sides**

Beyond the ability to identify and connect business outcomes to IT services delivery, another roadblock on the journey to outcome-based outsourcing is cultural resistance--from both the client and the vendor.

Customers often are not comfortable ceding the level of day-to-day control necessary to enable the vendor to focus on outcome, rather than service delivery. "Considerable change management is required in the client's mindset during the initial delivery phases," says Karoor.

Handing over the reins requires that the client has enough self-knowledge to be able to create realistic outcome-focused SLAs, not to mention a deep level of trust in its vendor. While Gartner has noted that providers are moving toward output-based pricing models where services support a process with measurable outcomes, buyers for the most part still seek out the safety of traditional outsourcing models. Only more mature clients are beginning to link outsourcing outcomes to business objectives, says Gartner, which "typically involves an evolved pricing model developed after relationships and trust have been established."

Providers may resist business-outcome focused contracts because of the risk they represent. Although moving away from input-based pricing enables vendors to deliver IT services as they see fit, "the vendor assumes much more risk for the relative freedom of choice [it gets] regarding the means for implementation," says Strichman. Indeed, the higher up the outcome on the business value chain, the more risk the provider assumes.

**One Vendor's Approach**

Symphony Services, a Palo Alto, Calif.-based provider of offshore IT services in India and China has been touting its "outcome certainty" pricing model for software engineering. "It commits us to meeting mutually agreed-upon goals," says Neil Fox, Symphony Services' vice president of strategic consulting. "If we don't meet them, clients pay reduced costs for our services."

The trick to outcome-based outsourcing, says Fox, is "linking contractually guaranteed work by the vendor to measurable client business outcomes, such as improving product line revenue, raising customer satisfaction, increasing product innovations or reducing time to market."

For customers who want to align vendor goals with business goals, outcome-based pricing can be the differentiator, says Fox. But not everyone is into the idea. "Some clients opt out of our outcome certainty-based contracts because they want the most simplified approach to managing their outsourcing partner," says Fox. Those customers sign more traditional fixed-cost or time-and-materials contracts.

Some customers shied away from the strategically focused outcome-based approach to sourcing during the recession when all eyes were on cost-cutting, according to Forrester Research principal analyst Bill Martorelli. Just 24 percent of outsourcing customers said increasing their use of output-based pricing was a high or critical priority, according to a Forrester survey conducted during the second quarter of this year. Nearly one-fourth (24 percent) said it was a low priority, while 37 percent reported that it was not on the agenda. But Martorelli predicts outsourcing customers' interest in outcome-based outsourcing will increase as the economy stabilizes.

*Source: ITWorldCanada, November, 2009*

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## Books & Reports

# BPO - A World Market Analysis

Report link: **http://www.researchandmarkets.com/research/82ead2/business_process_o**

Released: November 2009

With the development of the BPO market, service providers are experiencing increasing growth opportunities. Demand of companies is on the rise along with the expectations of the clients. Execution of deals depends on the ability of companies to meet client demands. Future of business process outsourcing depends on investments made by vendors and the relationship of vendors with clients.

There is an increase in outsourcing of key business functions and related IT operations, as companies intend to get the right things done for less money. Usually, processes that are outsourced include those, which are necessary but provide no competitive edge. Outsourced business processes include administration, billing, payroll, training, HR functions and logistics management. With increase in mergers, acquisitions, competition and globalization, BPO industry is expected to witness higher demand for new applications and advanced systems leading to growth in the outsourcing market.

These and other market data and trends are presented in ""Business Process Outsourcing: A World Market Analysis"" by BizAcumen, Inc.

## The Human Side of Outsourcing

*Psychological Theory and Management Practice*

Author: Stephanie J. Morgan
Released: November 2009

*The Human Side of Outsourcing* considers outsourcing from both management and staff perspectives. The book includes chapters on cultural and individual differences, the life-cycle approach, best practices, and recruitment, as well as featuring informative case studies from the field. Practitioner-focused but with a strong foundation in theory and research, this is a valuable resource for organizational psychologists and consultants, as well as human resource professionals, managers, and executives.

## Winning Strategies

*Secrets to Clinching Multimillion-Dollar Deals*

Authors: Anirban Dutta, Hetzel W. Folden
Released: December 2009

This book focuses on the end-to-end IT services and outsourcing life cycle. The target audience is anybody that wants to know about the IT services business. The book is a complete seller's and buyer's guide for today's market. Sellers will learn how to do analysis on the target market, form the right bid team, partner with relevant influencers and create unique go to market strategies for finding qualified IT services and outsourcing deals. Both buyers and sellers will learn how to define appropriate engagement models, create pricing and financial structures, form well defined contracts, negotiate effectively, institute transition best practices and govern the entire program with success.

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