predictions for
2012

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In this article sourcingfocus.com takes a look forward to 2012. In doing so, it looks back to 2011 to assess the trends that will continue, and new trends that spring to life as tributaries of the previous market activity. One thing is for sure: everyone will be risk averse; everyone will battle hard for a bargain. Only the smartest, sharpest deals will prevail.

PREDICTIONS **sourcingfocus.com** predictions 2012
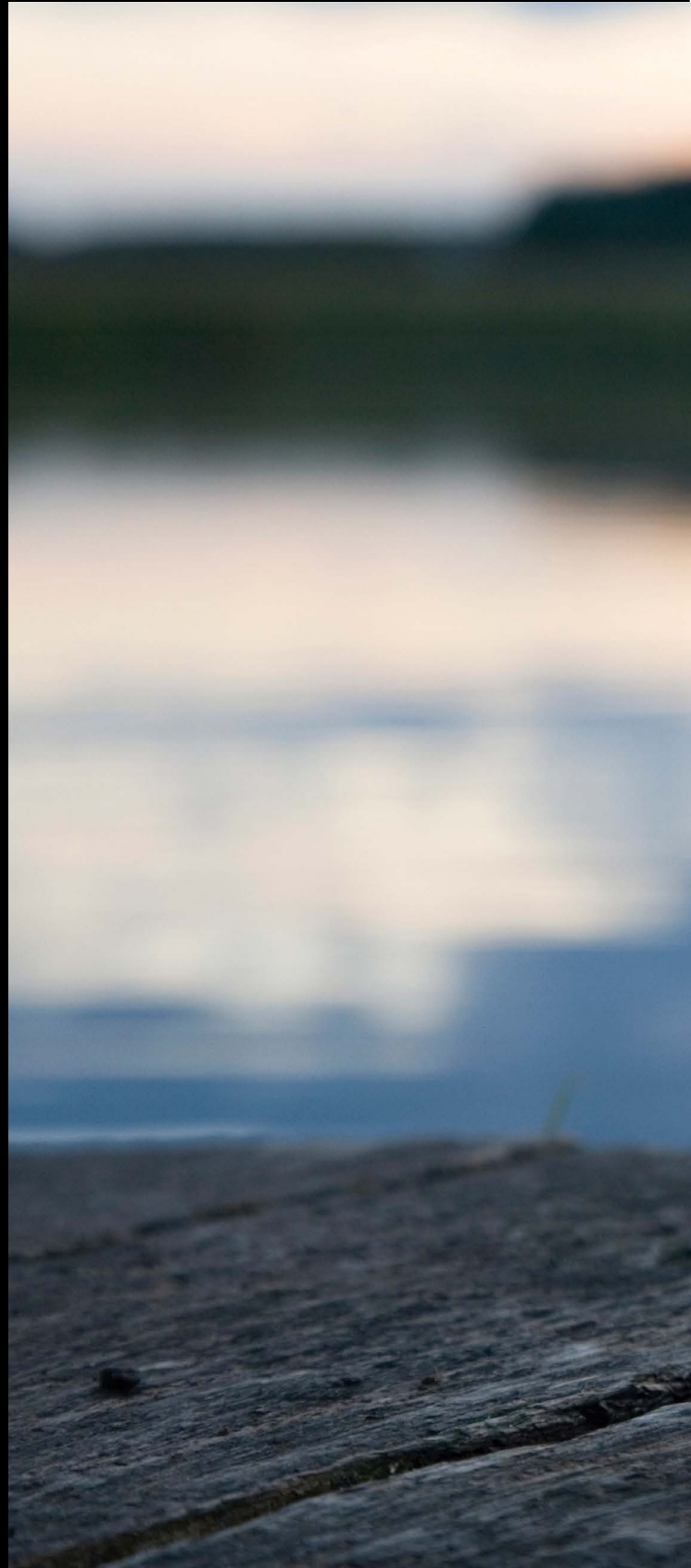
Economic pressures will be the major influence on the outsourcing market in 2012. Almost every decision will be driven by the bottom line; companies' main concern will be slashing operating costs.

1. Cost reduction

2012 will be a year of cost reduction drives. The on-going threat of recession will lead to belt-tightening on a global scale. Countries and companies all over the world are looking to reduce overheads, as they operate with a mind-set of survival. **Andy Rogers, NOA Board Member End User representative** says: "The key driver for corporate enterprises on the customer side of outsourcing arrangements will be operational cost reduction. Reduction of cost in particular of applications licences. Legacy applications support is becoming an expensive burden, and businesses will adopt rationalisation programmes as a precursor to adopting cloud services."

According to **Everest Research**, "Buyers that remain in the ITO market will focus their ITO spend on a smaller number of deals with simpler pricing models." **Lance Mercereau of Rosslyn Analytics**, agrees: "Chief procurement officers will outsource tactical, costly transactional work to specialist companies while maintaining hands on control of strategic imperatives such as managing supplier relations. This shift in mentality is being driven by the need for businesses to reduce non-core costs, retain talented employees and accelerate business value creation."

2. Bargain cloud

After a 2011 of hype, and somewhat sluggish take-up, cloud providers will revamp their offerings. Expect huge marketing drives, and cost reduction leading to deals that make the concept of housing and operating your servers on-site seem frivolous, and every thrifty CFO in the country will be clamouring for cloud.

This means that many more smaller companies will be able to purchase outsourcing in terms of cloud solutions, and smaller, flexible deals will prevail.

Martyn Hart, NOA Chairman says: "For those already partaking in procuring cloud services, 2012 will be a year of re-negotiation and jockeying for a better deal. For traditional (non-cloud) outsourcing service providers, they will have a big decision to make – do they accept that the smaller cloud providers will be eating into their share of the pie? Or do they go ahead and eat up a smaller, specialist provider and grab some share through acquisition? How will the major suppliers fight back? Expect them to move up the value chain offering services that directly contribute to ROI etc. and of course buying up some of those clouds."

3. Shared Services

Public sector shared services had its critics in 2011, with the often asked question, where is the evidence that sharing services actually works?

That evidence will be showcased in 2012, on the council tax bills of the people of Hammersmith and Fulham, who will welcome the 3.75% reduction cheerfully. According to **Paul Harwood of the Tax Payers Alliance** – Britain's independent grassroots campaign for lower taxes – the saving is due to "cost cutting measures including combining services with Westminster and Kensington and Chelsea councils in order to cut management and overhead costs by half."

sourcingfocus.com predicts that the effectiveness of sharing will grow in 2012, as departments get more advice on how it's done properly, and evidence of the benefits becomes more and more apparent. To find out more, see the article "Share services like you mean it," on p49.

4. Analytics BPO

BPO Analytics will be hugely important in 2012. According to the **Gartner CIO Agenda survey**, it is the number one technology – ahead of mobile at number two, and cloud at three – that CIOs see as their priority in 2012.

As the need for timely, astute decision-making grows, companies that do so on a strong foundation of high quality data, from across the whole of their organisation, will be best placed to be truly world class. These will be the companies that succeed in 2012. As well as the cash-saving aspects, analytics BPO generates the kind of insights that lead to market breakthroughs.

Tony Morgan, Strategic Outsourcing Chief Innovation Officer for IBM UK &Ireland and NOA Supplier Board Member, said: "I see an increasing likelihood that many solutions and services in this area will be provided as outsourcing services in the future. Expect to see more outsourcing relationships that embed analytics into business processes. This will help companies not only reduce costs and improve efficiency, but, by developing decision making prowess, enhance innovation. By accurately identifying where innovation is required, and closely monitoring its success, companies can foster a culture of innovation-on-demand."

5. Backshoring

With Barack Obama's recent speeches detailing his distaste for offshoring, a smattering of India corruption cases and the world economy in a tumultuous state, 2011 was not a vintage year for offshoring.

Micheal Stock, NOA Board Member for Offshoring, said: "Turbulence is the easy bet. Take your pick: currency fluctuations, pandemic scares, political instability, extreme climate events and sovereign debt. So expect less offshoring. The Contact Centre Association Global Survey asked 'how business would change to meet customer demand?' A greater amount of offshoring was the least mentioned answer, by 6% respondents."

Following on from huge companies like Ford and Santander opting to 'backshore' to the USA, and UK respectively, and the economic zeitgeist ripe for it, 2012 could be the year that more and more companies decide to bring work home.

6. Account management to take centre stage

2012 will be the year of the account manager, not the salesman in disguise. According to **HfS Research**, end-users are expressing dissatisfaction with the way their accounts are being handled. Currently, there is too much focus by suppliers on growing their business, rather than performing the requisite efforts to become intimate with the business of their client, which is essential if businesses are to benefit from transformational change.

There are also issues around multi sourcing, which is particularly important as, according to a 2011 Forrester survey mentioned that 56% companies are moving to a multi-sourced environment. This presents efficiency challenges, as according to HfS, buyers are dissatisfied with providers' ability/willingness to work together in multi-sourcing environments.
According to **Tridhip Saha, UK Head of Mindtree**: Enterprises are facing challenges of governance and integration frameworks, especially in light of SaaS/Cloud applications in a multi-sourcing approach. When towers are managed by different vendors, the risk is in the service integration.

2012 will see an injection of best practice into collaboration, and will need account managers who put relationships ahead of revenue. Longer term partnerships need to be put in place; this means key personnel staying in positions longer, and not being rotated through roles too quickly. Expect a rise in relationship specific roles, such as value director and innovation leader, in order to drive improvements in communication flows.

Salesmanship is dead. Viva la account manager!

7. Smart Phones

An ever-increasing reliance on smartphones, apps and social media, and new technological innovations – not only on smart phone handsets but in the network – continue to improve speed, reliability and availability of services. With the user experience being continually enhanced, smart phones will become ever more important in the way we do business.

Dani Muir, of outsourced customer interaction provider bss, envisages a move away from voice:
"For B2B businesses, 2012 will be about having mobile apps – doing things simply and easily on the move and the contact centre becomes the last resort rather than the first. My vision for 2012 is really about businesses re-looking at the customer journey. My view is that contemporary businesses will want to work on a journey plan, to enable customers to self-service as much as possible, apart from the really complicated issues – where they can talk to a live agent only for high value or high risk issues. If businesses can educate their customers to self-service, it will certainly bring down their costs. Companies have been incentivising people for some time to change their behaviour, and I think we'll see more of that."

As more companies wrestle with the security challenges of 'bring your own device,' at the same time as desiring improved access to corporate systems/software, development and integration projects present huge opportunities for outsourcing providers.
Tony Morgan, Strategic Outsourcing Chief Innovation Officer for IBM UK &Ireland and NOA

Supplier Board Member, said: Most organisations are busily investigating and/or addressing the challenges introduced by "bring your own device" to work movement. At IBM, we've moved swiftly away from looking to standardise devices, to focusing not on the device itself but the device's access to apps and data and ensuring security whether the device is accessing cloud based applications on apps sitting behind the firewall in your in-house or outsourced data centre. As these problems are addressed, expect an explosion in "bring your own device."

8. Demand for Mobile Software Developers

2012 will see a growth in demand for mobile software developers. Due to the increased demand for smartphone apps, both by consumers and businesses looking for new CRM channels, people with the wherewithal to create them will find a raft of opportunities open to them in 2012. This ties in neatly with the rise of Tech City, and the government's supportive stance. It will be vital that the government and industry unite in 2012, taking steps to bridge the IT skills gap – according to a December 2012 **survey by CWJobs** 61% of IT professionals believe there is currently a skills shortage in the industry.

Tridhip Saha, UK Head of Mindtree said: "The growth will arise from both standalone applications as well as applications that need to be integrated into the back-end systems as well for clients as well as employees. Mobile is playing different roles in each industry. For Consumer goods and retail it's evolving from being a 'Point of Sale' to a 'Point of Socialisation' where it's influencing the sales and the market. Similarly for the media industry, paper media has crashed and mobile as a medium for information has gained importance."

Danvers Bailleu, senior associate at law firm Pinsent Masons said: "There is a real focus from a core group of people within Downing Street to actively change policy on a macro and micro level to encourage new small tech companies, and for these to drive economic growth. So at a macro level legislation, in areas such as entrepreneur visas and entrepreneur tax relief is being brought in to ensure that tech companies thrive. Essentially government is acting as both a cheerleader and convener for tech innovation and is dedicating real resource to make Tech City a success."

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9. Social Enterprises

In the eyes many of the UK people, greed and irresponsibility have led to such gloomy economic times. Having a unshakeable commitment to social responsibility is becoming a good way to win custom – many customers out there no longer wish to line the pockets of 'fat cats.'

As trust in the ability of social enterprises to deliver the goods grows, expect more and more social enterprises providing all sorts of outsourced services to the private sector. Meanwhile, those that rely on business from the public sector may struggle. Although just 18% of social enterprises depend on public sector work, these organisations are expected to make half of the redundancies in 2012, according to a **survey by Social Enterprise UK**.

2012 will see the movement spread internationally. **Social Enterprise UK Chief Executive, Peter Holbrook** explains: "One of the ways we can see this is that Social Enterprise UK is getting a constant stream of delegations visiting from emerging economies like South Korea and India. They need public services and they have their social problems, but they don't want to find themselves in ten or twenty years having to service a large bureaucratic public sector or unsustainable charitable sector. They're going straight for social enterprise. It's a bit like countries who don't have a landline infrastructure for phones leapfrogging straight to mobile technology."

10. The Word Outsourcing

A trend noted in the latter half of 2011, is the gradual disappearance of the word outsourcing and this is predicted to continue through 2012 and beyond.

In the UK, 'outsourcing' has for a while been swapped out with the more generic catch-all of 'sourcing', which embraces: outsourcing, insourcing, backshoring and even shared services. This will continue, however is not the prediction in hand. What we are seeing coming from America is the wholesale replacement of the word outsourcing, with the more positive term "business services", which encompasses of course everything from IT services through finance and accounting to analytics. **Kerry Hallard, Managing Director of Buffalo Communications**, supplier of marketing services to the NOA and broader outsourcing industry (read business services industry) commented: "The word outsourcing is increasingly being phased out. I believe this is in a large part due to Obama's misunderstanding of the term. He systematically substitutes outsourcing for offshoring in his rallying cries to patriotic America and in doing so has maligned the word. The outsourcing industry in the US is doing well to reposition itself and am sure we'll see this change in language filter through in the UK in 2012".

PREDICTIONS
Phil Fersht, CEO, HfS Research.

2012 Outsourcing outlook

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Buyers are more educated with outsourcing and looking for a whole lot more from the experience

Today's harsh business realities are driving more focus on organisations aligning both their outsourcing and shared services frameworks, however, are companies panicking and screaming: "Help! We must hurl as many of our fixed administrative costs out of the window a.s.a.p. and deploy as much low-cost service delivery as we can, regardless of the consequences"? Of course they aren't – they're also looking at measures such as their ability to have more flexible global operations, to standardise processes across geographies and ERP instances and to align their internal stakeholders

more effectively. Cost-control is a measure that is always a constant focus; however outsourcing doesn't always provide that answer, especially with experienced businesses that have already moved out a lot of tangible cost in areas such as transactional accounting and application support. Outsourcing only provides part of the answer.

Our research shows that only one-in-six of buyers today are concerned about the disruption caused by outsourcing, hence if they currently only view outsourcing as a cost-reduction lever, they are going to place it in a pecking order of other cost-reduction measures… and it's not always going to the most effective short-term measure in a tough economy. It's the job of advisors and providers to educate and demonstrate

to buyers the benefits beyond cost-reduction and help clients embed outsourcing among their internal governance practices to align its benefits with those provided by internal process improvement and shared services.

Outsourcing focus shifts from cost savings to global flexibility

Most enterprises today that are experienced with outsourcing have already offloaded many of the conspicuous costs with predominantly labour-based engagements, in areas such as software maintenance support, development and testing, and transactional accounting. Their attention is now moving to other (and often more complex) processes and technology areas where they need to dig out real improvements, and outsourcing can potentially provide that trigger (see Exhibit 1).

In days gone by, the old adage about outsourcing that many executives would often declare (off-the-record) has been "let's take 30%+ off the bottom-line and if we can make some other business improvements with the exercise that's a bonus, but let's get the costs out." Today, they're saying, "OK, we know where the cost-savings are with outsourcing; now let's use the experience to get better process and technology for our business".
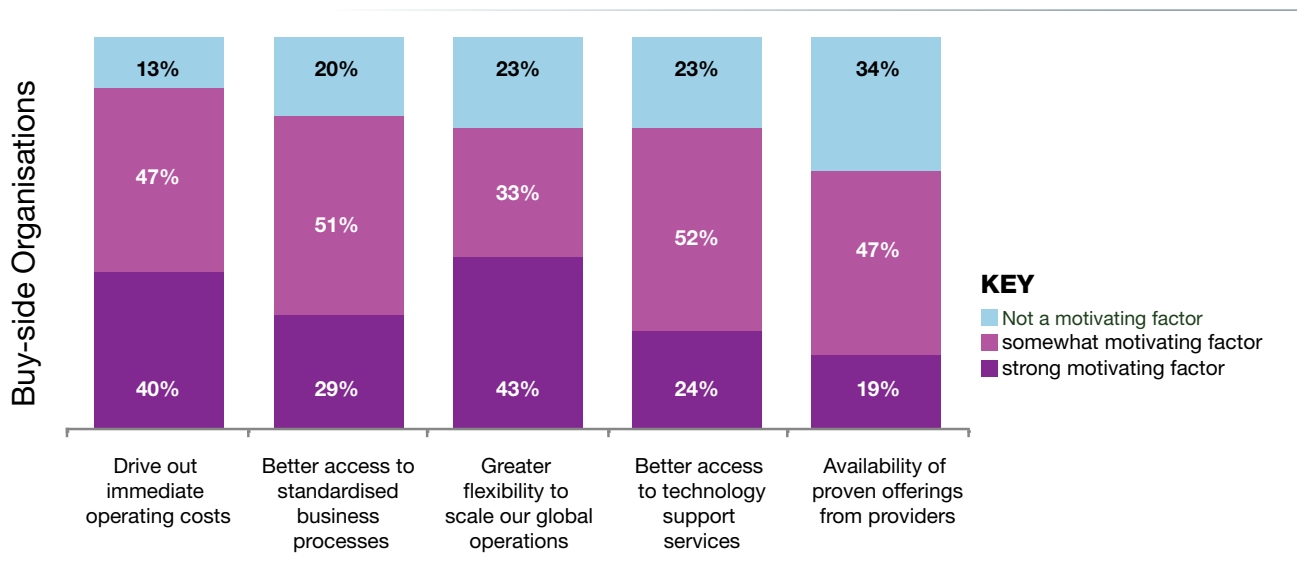
The impetus has changed – and while many outsourcing engagements, in the past, have largely fallen flat with delivering business benefits beyond cost-elimination, clearly many executives are getting more experienced and skilled at driving sourcing initiatives, and are confident they can use the endeavour as a change agent to promote and implement much-needed improvements to their business operations.

The greatest single major-motivator driving outsourcing in today's environment is this need to have more flexible global operations (43%). Governance leaders are under increasing pressure to move onto single instances of ERP, and develop real end-to-end visibility across their global processes. In olden outsourcing days, far too many organisations would operate their shared services under one management team, and often brought in elements of outsourced IT and business process into siloed vendor management functions which often became disconnected from the broader shared services function. Today's shared services leaders know they need to integrate the outsourced services much more effectively with their existing processes in order to get anything close to achieving global process effectiveness. They are also highly cognizant of the fact that they can leverage outsourcing as a vehicle to achieving process enhancements that have been back-burner for years.

The Bottom-line: Buyers are looking for a whole lot more from the outsourcing experience

Reading into our new research data confirms what most of us in the business are hearing and seeing every day from buyers – they're getting smarter about sourcing and are upping their expectations. They also know they're likely to be stuck at some end of an outsourcing engagement for most of their career, so they might as well figure out how to do this properly. Gone are the days when you threw your provider under the bus in five minutes – your head is now on the block to make it successful for your organisation, because it the engagement fails, you fail and someone else will be drafted into your role to fix the mess. You don't want a reputation for sloppy governance on that outsourcing resumé.

Exhibit 1: Focus shifts from cost to standardisation, global flexibility and better technology

	Drive out immediate operating costs	Better access to standardised business processes	Greater flexibility to scale our global operations	Better access to technology support services	Availability of proven offerings from providers
Not a motivating factor	13%	20%	23%	23%	34%
somewhat motivating factor	47%	51%	33%	52%	47%
strong motivating factor	40%	29%	43%	24%	19%

KEY
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