

review of 2011

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2011 has been another exciting year in the outsourcing industry. As the spending cuts truly began to hit home, organisations looked to outsource elements of their core-business rather than the traditional non-core activities such as payroll and HR.

Outsourcing is now commonplace, from major corporations to SMEs, in every industry, across all verticals. During the summer of 2011, Oxford Economics released a report stating that not only is the outsourcing market maturing; it is now generating an enormous £207bn per year for the UK economy. This equates to 8% of the UK's output, which bears close comparison to the overall size of the UK financial sector (which totals 8.1% of output).

Cost will undoubtedly remain a key driver for outsourcing, but 2011 has brought a shift in attitude – a focus on cost efficiencies and transformational change for the long term, rather than a short-term cost cutting exercise.

Clients now want to partner with outsourcing companies to transform their businesses for the better in a number of ways – to deliver greater efficiency, improve flexibility, increase quality of service to their customers, and help them stay ahead of the competition through innovative solutions.

Roger Newman, Senior Vice President, Mahindra Satyam, commented: "So far this year we have had cause for a cautious optimism towards our business. There is a fair amount of activity in the marketplace and some large deals have taken place, but the majority of deals we are bidding on are projects or transformational programmes rather than full outsourcing deals. This activity is evident across most of the major industry verticals. Uncertainty about the economic situation often means that companies are unwilling to expand their own headcount and this pushes businesses to outsource to companies such as ourselves."







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sourcingfocus.com editor, **Paul Corral**, looks at the outsourcing trends and contracts which made the headlines in 2011.

2011 was the busiest year on record for the global outsourcing market, with 870 total contract awards valued at \$25m or more, well above the average of the five prior years of 690.

Contract activity

The 2011 total contract value (TCV) reached \$95bn, an increase of 3% over the prior year, and the highest annual result since 2005.

Every region experienced record setting contract activity in 2011, with half of all mega deals awarded in the fourth quarter. The 4Q11 Global TPI Index reports TCV of \$26.4bn, an increase of 7% over the same period a year ago. The majority of the mega-deals – those contracts with TCV of \$1bn or more, BPO based from Europe, the Middle East and Africa (EMEA).

"The acceleration of contracting activity alongside continued growth in overall contract value is a notable shift in the global outsourcing market," said John Keppel, Partner & President, Research and Managed Services, ISG.

BPO continued its strong 2011 performance, with fourth-quarter TCV up 60% year-over-year and full-year TCV up 32%, to \$29bn. The 336 BPO contracts signed in the year was more than in any previous year, with much of the activity coming from the Financial Services sector.

Contracting activity in the ITO segment also increased over 2010, by 8%, and is up 86% since 2005. However the actual value of ITO contracts (TCV) has declined slightly year-over-year in the fourth quarter, and the full-year total of \$66bn represented a 6% decline over 2010.

After underperforming the prior year through the third quarter, the financial services sector awarded a spurt of large contracts to push its 2011 TCV to \$27bn, its third-highest annual result on record. The 235 contracts awarded for the year was the highest ever for the sector.

In the manufacturing sector, fewer contracts were signed yet TCV for the year increased. Off a smaller contract number and TCV base, Telecom & Media did very well in 2011, signing more contracts of considerably greater value.

"As we anticipated last quarter, the outsourcing market finished 2011 within historical norms, slightly outpacing our prediction for TCV, growth," Keppel said. "Our prediction for the outsourcing marketplace in 2012 is continued growth in contracting activity of between 5% and 7%, led by Asia Pacific and BPO, with overall market TCV holding firm for the year."



Analytics and business intelligence

The use of analytics and business intelligence has been an increasing trend throughout 2011 due to their ability to build on a strong foundation of high-quality data and pinpoint the source of greatest demand.

The offshore analytics space has evolved from being dominated by captives of large companies to embracing large vendors offering end-to-end specialized analytics solutions to specific verticals.

NICE Systems acquisition of Merced Systems and Visa Europe's investment in Beyond Analysis are just two examples of the increasing desire for data analytics capabilities throughout 2011.

A recent study of Chief Information Officers (CIOs) by IBM reveals that the top strategic technology investment over the next five years at outperforming midsize organisations is business analytics. The study reflects that within the broader category of analytics, 64% of midmarket CIOs said they are using data warehousing platforms and visual dashboards. Another 63% are using master data management (MDM).

The use of analytics and business intelligence will continue to rise in 2012 as organisations concentrate on IT to strengthen the customer experience, streamline processes and ultimately bring in more business.

Public sector incentives

It was an interesting year for public sector outsourcing in 2011. On the one hand, reported leaked documents suggested ministers had decided the "wholesale outsourcing" of public services to the private sector would be politically "unpalatable" and on the other – the release of the Open Public Services white paper, procurement process overhaul, and the Cabinet Office Guidance for Offshoring – point to an escalating level of outsourcing in government support services.

When the Open Public Service was finally released in July, David Cameron said that the "principles it sets out will make it impossible for government to return to the bad old days of the standard state monopoly".

Francis Maude unveiled a package of measures that included online publication of £50bn of potential business opportunities; a 40% increase in the speed of the procurement process; and, retraining of civil servants to open up awarding contracts to smaller and medium-sized firms.

However it wasn't all good news for public sector outsourcing. In September a heavily edited internal Cabinet Office report attracted a lot of negative publicity for the outsourcing industry. The report revealed that the CSC contract with the NHS remained a "major problem", noting existing plans for their new software Lorenzo were "not deliverable". CSC's failing contract has dominated headlines in outsourcing throughout 2011 and continues to be one of the biggest challenges for Cabinet Office minister Francis Maude, who has been reviewing large government contracts.

2011 also saw the development of the All Party Group on Outsourcing and Shared Services, chaired by Bob Blackman MP, which aims to investigate how the public sector can become a better consumer of outsourcing and shared services.

The group believes that a deeper look into the potential of outsourcing and shared services to help deliver savings across the public sector would be welcomed by the coalition. By looking at projects that have worked on time and delivered savings, the group hopes to draw out common themes that can form a best practice guide for procurement officials and Government. In 2012, the group will also look into projects that have not worked, and decide what lessons can be drawn from

these. If you would like to be on the mailing list for updates from the APG please contact admin@noa.co.uk

Government and SMEs

From outsourcing their payroll, to employing interim management professionals to drive change, 2011 saw many SMEs choosing innovative ways of expanding their business in a year which the government said was led by SMEs.

James Lonsdale, DWF Partner, Commercial & IP said: "Government IT procurement is largely dominated by the big incumbent players, and the Government believes that encouraging the use of SMEs will increase competition and drive innovation and cost improvements."

Throughout 2011, the government announced a range of measures designed to encourage greater SME involvement including:

- Adopting a "lean" approach to procurement encouraging SME involvement
- Appointing a new Crown Commercial Representative to "build more strategic dialogue between the government and smaller suppliers"
- Holding "SME product surgeries" to enable selected SMEs to 'pitch' innovative products and services to a panel of senior procurement and operational professionals from central government and the wider public sector
- Use of outcome based specifications as much as possible
- Breaking up requirements into 'micro lots' where practical

James continues: "Although the government's approach appears to have increased the number of contracts being signed with SMEs (44% in September 2011 compared to five % in January 2011, according to the Government's Chief Procurement Officer John Collingwood), what effect this will have in practice on large IT projects remains to be seen."

Cloud

The outsourcing industry, and IT as a whole, has been strongly focused on the cloud and the potential for flexible, cost effective computing throughout 2011. Providers and end users can no longer ignore its possibilities – understanding the cloud and how it can revolutionise the industry is both exciting and challenging.

David Ebsworth, CTO of Oncore IT, said: "With discussion on the cloud so prevalent, it's no surprise that we've seen more multi-tenanted solutions coming to the market as 2011 has gone on. Virtualisation and consolidation continues to drive the desire to relocate not just secondary and disaster recovery systems, but increasingly critical IT to the cloud."

Amazon Web Services (AWS) had some outage issues in 2011, but they still set the pace for public clouds, driven by a steady stream of feature enhancements.

Private clouds also grew and alternatives to VMware matured throughout the year. VMware delivered a number of compelling enhancements to the vSphere 5 platform, such as "monster" virtual machines, storage DRS, and a virtual storage appliance.

Cloud-based productivity applications went mainstream in 2011 and many overtook Microsoft Office as the preferred choice for many organisations. Google elaborated its Docs suite with an updated presentations program while Microsoft responded with Office365, and its licensing plan for small businesses has even replaced the flagship Office desktop software with the new web-based offerings.

Spanish banking giant BBVA switched its 110,000 staff to use Google's range of enterprise software. The deal is the biggest that the search giant has signed with one company for its cloud-computing service and the deal can be seen as a breakthrough in corporate adoption.

José Olalla, CIO at BBVA says, "We were looking for a technology that would transform our business operations – not just make our workers more efficient. Integrating the Google Apps for Business suite with our own tools will allow us to introduce a new way of working where employees have access to all the information they need with just one click, no matter where they are, and can reap the benefits of using advanced collaboration tools."

We also saw cloud computing become a reality in 2011 for SMEs. According to a survey by the Cloud Industry Forum, about 50% of SMEs are currently using cloud for part, if not all, of their IT services.

A G-Cloud Delivery Board was announced towards the end of 2011 which will take the lead role in implementing the government's programme for cloud computing, while a G-Cloud Authority will oversee the longer term take-up and assurance of commodity services.

Andy Nelson, Chief Information Officer at the Ministry of Justice, said there had been 250-300 responses to the notice in the Official Journal of the European Union. The notice was issued at the end of September to test the market for services through a short term framework.

Flexibility and collaboration

A collaborative and flexible approach has become far more relevant in the 2011 economic landscape where growth is slow and the need for more creative approaches to driving efficiencies, keeping costs down and improving service quality has become key.

Jon Milward, Director of Managed and Support Services, Northdoor, said: "Collaborative working, both internal and external, really took off during 2011, with products like Microsoft SharePoint gaining a lot of traction within the SME market. With the ability to share work, build intranets, create websites, and even develop portals that are linked to the rest of the supply chain, Sharepoint made it onto the radar of many SMEs in 2011 because of its rich functionality and ease of use, and because IT specialists are now much more proficient when it comes to getting the most out of these tools."

Advances in technology have also helped to support a collaborative approach in outsourcing and promote other delivery models throughout 2011, with innovations such as virtualisation and the cloud leading to new ways of outsourcing, managing, innovating and working together.

Social enterprises

Last year, we also witnessed the government's aspiration for a public sector workers to set up their own mutuals by 2015, gather pace.

A mutuals taskforce was set up in February to support the creation of mutuals. Francis Maude, the Cabinet Office minister, announced details of a £10m programme to facilitate the process.

The government continued to support the idea of social enterprises providing more services. However, Labour peer Baroness Jay of Paddington told the House of Lords in October that the decision not to award an NHS contract to Central Surrey Health, a mutual owned by former NHS workers, confirmed fears that social enterprises were being overlooked in favour of big businesses.

The Open Services White Paper, released in July 2011, promoted 'more freedom, more choice and more local control' for collaborative partnerships. David Cameron said there would be more help for charities and social enterprises to enter into competition to run services.

David Cameron said: "Sometimes a charity or a social enterprise trying to come into public services will find strong forces trying to keep them out. There needs to be a level playing field so that anyone with a good idea can get involved... with this white paper we're making sure that across the public services there are organisations whose job it is to make sure new providers can come in."



REVIEW 2011

Will Arnold, Research
Director, Apollo Research.

Outsourcing in the media

Media coverage of outsourcing is now highly complex. It covers hundreds of suppliers and users, locations around the world, different types of outsourcing, a range of reasons to outsource, reasons not to outsource, factors in picking one supplier over another and topics in understanding how outsourcing works.

The impact of the coverage on audiences – that include end-users, employees, politicians, voters, and investors – can be measured in the hundreds of opportunities to read and hear about outsourcing in the UK alone.

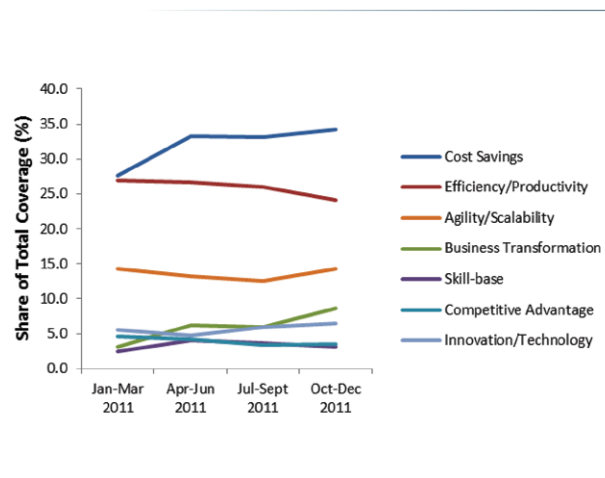
The media's interest in the subject is ever-increasing. Outsourcing once again increased its profile in the media in 2011, up 11.2 per cent year-on-year. This was in part due to the continued rise of cloud computing within IT outsourcing; in part it stemmed from media interest in how outsourcing more generally could be used to deal with uncertain economic conditions.

The increase in profile for outsourcing was accompanied by an improvement in sentiment from the media. Outsourcing was seen as growing in a significant number of stories where its prospects were considered. At the same time, benefits outsourced the barriers to using outsourcing by a factor of 7.4:1 in 2011, a big increase on 2010. Within these figures, benefits increased in volume, while concerns decreased.

Discussion of the benefits of outsourcing can be grouped around two broad themes: cost reduction and improved

efficiency and business transformation. The graph below shows cost-savings leading the reported benefits of outsourcing and increasing its prominence within the mix of benefits. The topic is likely to continue to perform strongly in the media over 2012, being so closely linked to the issue of difficult economic conditions, which is set to continue to play strongly in the media.

Outsourcing media coverage 2011



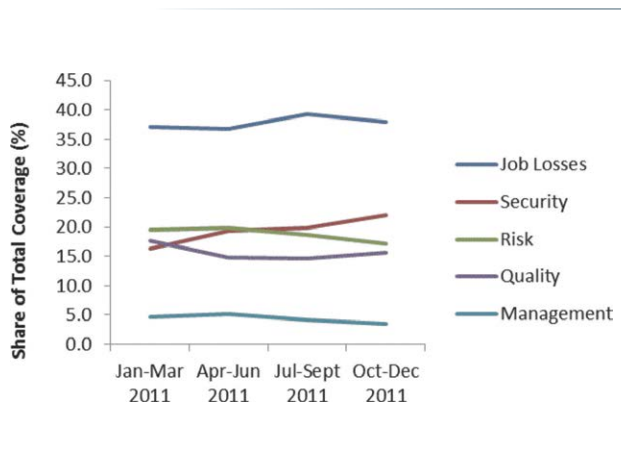
Outsourcing's perceived ability to improve a company more strategically has made progress in the last quarter. Agility and business transformation in particular increased their profile in the latter part of 2011. The arguments in the media are that outsourcing enables companies to move in a new direction quicker and, in some cases at least, brings in different skills.

There are also indications that competitive advantage, although its profile has been static in the media, will feature more heavily in the next twelve months. In line with previous downturns, companies are now talking more in the business media of their objective to grow market share in a stagnant or contracting market; this message is likely to resonate within media coverage of outsourcing.

Job losses dominated the concerns about outsourcing, as the issue did in 2010. There was a clear lead between it and the next most prominent concern, security. Discussion of job losses was particularly strong within the public sector. Sentiment more readily turns negative when outsourcing occurs within a political context. "Needs-must" in austere times appears to dampen negative sentiment and this will clearly continue. That said, outsourcing and the impact on jobs could become more prominent if Mitt Romney becomes the US Presidential Republican candidate; this appears to be a point-of-attack.

Users of outsourcing and their suppliers differed in how they presented the issue of jobs. Some users and suppliers of outsourcing did not mention the impact on employees within the coverage; others however addressed the issue to cover pay, conditions and job security. Some were more positive still and discussed career opportunities.

Outsourcing concerns coverage 2011

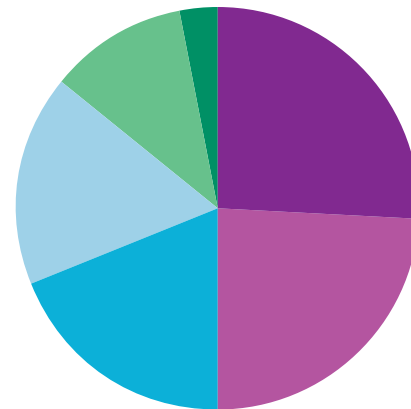


Security is set to remain a big concern in outsourcing next year. The number of highly publicised security breaches over the spring and summer of 2011 and the growth in Advanced Persistent Threat, while not in themselves targeted at outsourcing last year, have changed the climate for security.

India was still the country most associated with outsourcing. However, its lead was cut by China and a number of Far Eastern and Eastern European countries, as much of the media appear to have moved on from using India almost as shorthand for outsourcing and offshoring. Choice is the theme that has been bubbling up in the coverage – choice and the need to understand the capabilities and cultural fit of the different locations.

Within such a complex landscape of competitors, benefits, concerns and selling-points a lot of suppliers stepped up their profiles in 2011 as they sought to build their brand presence and show they were relevant to what end-users need and were able to deliver. The media used the following criteria to describe suppliers:

Supplier descriptions in media 2011



KEY

- Global – 26%
- Leader – 24%
- Ability to deliver – 19%
- Industry Knowledge – 17%
- Value for money – 11%
- Partnership – 3%

Overall, outsourcing has moved in the media during 2011 to a position where it is perceived to be a strategy that has to be considered by companies. Primarily, this is still seen as a way to cut costs, but the indications are that more strategic objectives are rising on the media's agenda.

Methodology

14,430 stories were analysed in the UK media relating to outsourcing between January and December 2011. The media included nationals, regionals, business media and industry titles.