



The World in Crisis

A Report on the Impact on Global Outsourcing Relations

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This last month (September 2008) has been a wake-up call for people around the globe. The reign of never ending prosperity has come to a grinding halt. As companies line up for bail outs, others are looking into the future with a sense of uncertainty. If history repeats itself we are going to see the fallout ranging from suicides and drug abuse at a personal level, to companies responding with knee jerk reaction solutions. Overwhelmed with present realities force us to grasp at anything to put us into a better state of mind, what we might also know as the “happy place”. When threatened, we react and often inwardly. This places outward ventures in jeopardy and specifically outsourcing. Yet, as companies attempt to come to grips with present day fiscal realities, choices may become more a case of reaction rather than the application of sound judgment. During the great depression people jumped from buildings, threw themselves in fiscal peril and masked their lack of hope in sins of self indulgence. Companies that had the intellectual capacity to survive overrode sound judgment to their demise. The present is another chapter, an exercise in innovation and creativity, driven by necessity and stimulated by the opportunity to overcome what might be viewed as the impossible.

As companies shift from fiscally aggressiveness to ultra conservatism, many will seek quick yields from further thinning of their organizations. Companies will be tempted to lighten the ship by throwing excess cargo overboard, including much needed ballast. To their demise the ship will find itself unable to remain stable. This is a very common mistake and graceful recovery is nearly impossible. Removal of vital resources and reduction in services create an even lower Return-on-Investment (ROI) than existed before downsizing. All the while it places the entire organization at risk of losing its ability to be globally competitive.

The game of outsourcing, whether offshore, nearshore, onshore, staff augmentation, service delivery or project driven frameworks will change. This is a certainty and not a prediction because of the level of change that is taking place. The rule book is and will remain in a state of change for many months, if not years to come.

The following two sections describe the effects that the present financial situation for the outsourcing community (buyer and supplier). As explained earlier with the application of organization leaning buyers face a lowered ROI. Base/bottom cost levels will be reached and elimination of application

services will not be possible without a drastic impact on global competitiveness. This means that in order to recover ROI alternative sourcing models will need to be exploited. This includes,

- Employing lean delivery mechanisms and the use of high yield technologies such as software reuse, component re-engineering, and rapid delivery approaches (ex. Agility),
- Continued examination of outsource solutions. However, the increased need to make outsourcing successful from inception, significant risk reduction measures will be undertaken. Buyers will be looking to reduce risk through independent confirmation, expert guidance, and advance engagement management. The days of employing simple service engagement-delivery models are gone.
- Despite financial market turmoil, buyers will look for ways to get the most from their outsource engagements. Currency futures, supplier selection based on financial and social stability will become key decision points in the choices made.
- Emphasis will be reduced in terms of name and size, as a critical choice in the selection process. Past history has proven that these are not risk mitigation measures.
- Time to reexamine back burner initiatives, outsource engagements placed on hold, service returned home (retrosourcing), and all in-flight outsource initiatives. Especially vulnerable to change is staff augment services. With reexamination of critical business functions buyers will have limited bandwidth. It is expected that there will be a shift to a service model approach. This isn't without caveats in that even under this method ongoing oversight will be required.
- Companies utilizing a staff augmentation model will be re-examining this strategy as domestic re-attention steps in as a high priority. This means that this model choice will be closely scrutinized. Fewer will stay with this model and are most likely to move to a pure offshoring service model, while others will retract or establish their own offshore presence.
- Call center services will see a renewed level of interest as low paying domestic jobs get pushed offshore. Refocusing on domestic affairs will give way to a minimization of service related jobs which proportionally are high expense items when factoring space and benefit elements. It is also worth noting that buyers will start to give attention to delivery separation between aspects kept in-house and what aspects will be set abroad. This will be driven by risk minimization and cost/efficiency considerations. This is a much welcomed relief from wholesale offshoring practice. This will place the Knowledge Process Outsourcing (KPO) model on a slow path for offshore service providers.

On the supply side, as outsource service providers;

- Continued pressure to provide risk reduction measures. Buyers will be looking for more business stability (viability), indications of delivery ability, and stronger measures in the areas of engagement/project management and communication channel maturity. With added interest in outsourcing services the buyer side risk is through ascertaining that this increase can be delivered with a high degree of certainty.

- On a similar note monies that would have been earmarked for staff expansion will need to be diverted to risk reduction measures in order to retain sales opportunity pipeline. Companies who ignore this will see their viability diminish. Other organizations that do not have sufficient cash reserves or surplus cash flow to address risk reduction will suffer unless they consider strong collaboration with other service providers or utilize mergers/acquisitions as a means of survival. In general, global service providers have underutilized collaborations except with Tier 1 competitors and have remained reluctant to engage on a peer level basis. This dramatic shift will,
 - Force a realignment of values; more will not equate to better (in headcount and size) in the view of the buyer, operational matters such as facility presence will give way to remote/telecommunicating forcing a higher staff competency level and stronger demand for self-directed professionals. This will challenge cultures that utilize a strong central command and control paradigm. We should anticipate that this will rapidly reflect the ability of cultures to adapt and that outsourcing prominence shifts will occur. Resource pool capacity (by country) will become less important, and focus will be placed on professional delivery which produces risk reduced engagements.
- Selling into foreign markets will become even more challenging. Words will have to be replaced by fact. Cold calls will not yield what they have in the past. Market identity and 'unique' branding will become essential. Inside connections with buying companies will become mandatory to reach basic levels of consideration. Marketing will be important for visibility, but domestic market sales connections will be essential. Domestic sales staffs will have greater success when staffed with domestic employees. Some of this was shown prior to the global financial crisis but these recent events have made this even more severe. Even though buyer's interest will grow, selection will become more stringent. Buyers will continue to mature their 'preferred list' but will become more willing to remove those that fail to meet qualification criteria.
- Approaches considered as the gateway to global markets and attract sales opportunities will produce low yields. These include,
 - Foreign conferences used as a base for establishing sales generation opportunities
 - Getting foreigners to a 'traditional' venue will continue to be challenged with ever increasing travel costs. These events must offer something more than what could be experienced in local venues and will need to utilize innovative global connection techniques.
 - Websites utilization, by buyers, may increase slightly. However, this will put suppliers on notice that these have to be professional at a the lowest level of detail. Small issues with presentation, content, form and assertions will make or break an opportunity. Tracking access and collecting viewers will become an important aspect. Timely follow-up attention is crucial. However, there are no guarantees on outcome. A presence in all media/marketing venues will be important and necessary.

- Web site keyword tagging will have increased importance to insure visibility while having unique identity.
- Freeing capital in order to fund company development is needed. A cash-and-keep mentality will jeopardize companies looking for long term survival. Companies, if monetary regulated, will have to find alternative ways to overcome this barrier. This may involve the acquisition, merger or collaboration with foreign operating partners to overcome stranded capital situations.
- Large outsourcing companies will continue to enjoy entry level interest. However, even these Tier 1 organizations will be needing to make heavy infrastructure investment to reduce buyer risk concerns. Buying countries hit with significant downsizing will begin looking to foreign service providers to deliver improved;
 - Offshore (buyer/domestic regions) engagement management
 - Offshore project management
 - Staffing qualification and stability

These same companies will need to further develop and refine their marketing and sales pursuits in these foreign buyer markets. Outsourcers that come to the realization that local presence, with a domestic face, will significantly increase their likelihood of contract engagement. Those continuing to look for project handouts or commission driven sales will see a continued reduction in engagements and an unstable/undependable revenue stream and very low yield.

- Near shore market interest, a new and emerging solution, will remain of interest to buyers but remains in a fragile state. Capacity remains of moderate concern. The ripple effect of economic down turns will plague near shore service suppliers.

In conclusion,

- Outsourcing as a solution (OAAS) will remain an attractive high-yielding alternative when facing diminishing ROI on Information Technology (IT) domestic delivery services,
- OAAS remains a moderate/high risk potential with proper supplier qualification and oversight risk will be reduced to acceptable, normal business levels,
- Work effort balancing will become of foremost interest to buyers. Despite abundant resources in some regions buyers will push for 'right-size project accountability' on the part of service providers. Qualification of resources will also take center stage to this shift in project delivery priorities.
- Relationships will drive purchase decisions as buyers pursue near neutral risk outsourcing ventures. Trust relationships will make or break a deal.
- Size will not matter except to the extent of adequacy for project/service engagement. Larger isn't better (managed and qualified resources are), and in fact it can be a detriment when considering suppliers. Ex. Why would a buyer who would have carried out a project with 100 people want a service provider to do this with 1000 (regardless of price)? Some would argue delivery speed; however one must remember that only so many people can

effectively work on so many tasks at one time. Integration of this work will become a massive exercise under this model and will increase delivery risk in terms of both quality and time to deliver. Right sizing engagements, which will be lower cost, will balance with increasing labor/engagement costs by offshore/nearshore providers.

The future holds many uncertainties, concerns, worries and opportunities. Failing to keep these in balance will undoubtedly create outcomes that are unacceptable. Outsourcing remains a tool for companies looking to extend capacity and do so in a reliable and ROI based way.