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Interesting times ahead for outsourcing in UK

It has become one of the most prominent business topics of 2009 as the recession prompts executives to look at reducing overheads and minimise any negative impact on the bottom line.

BY MARTYN HART, CHAIRMAN OF THE NATIONAL OUTSOURCING ASSOCIATION (NOA)



In fact, it is a very challenging and interesting time for all industries. The downturn has had a considerable impact on the world economy and most would agree that we are in unpredictable times. In recent years companies have been using outsourcing to create business innovation and organisations have been looking to work in partnership with outsourcing providers to solve specific issues and look at ways to transform business functions.

Innovation in the way service providers are rewarded for meeting strategic metrics has certainly been a step towards outsourcing success. As a result many

organisations have advanced their sourcing strategies to examine whether or not a supplier can actually complement their overall business strategy, rather than just reduce costs. It is this search for innovation and strategic partnership that has driven significant advances in outsourcing relationships.

Patriotism on display?

However, this year may prove to have some significant differences in terms of where companies look to source their potential suppliers. For example, we may see a reduction in offshoring. With rising unemployment in the UK, companies may be reluctant to send jobs offshore in favour of outsourcing to within the UK or at least near shore. Patriotic sentiments and rising unemployment will encourage UK organisations to seek out areas in the UK to site new outsourcing business or bring back poor performing operations.

Government involvement may also be a deciding factor in choosing where production takes place. Recently the French government announced that any car manufacturer that takes a share of the £5.5bn car industry loan must guarantee to keep jobs and factories in France. Across the water the new US president was cer-

tainly against offshoring during the election campaign. A strategy such as this may feel good, but whether this is economically right entirely depends upon each situation. Companies still need to take a hard look at which location and supplier will best suit their needs.

Decisions based solely on cutting costs can actually create more costs, more work, and cause far more headaches to the organisation and also the supplier in the long run.

Whether onshore, nearshore or offshore 2009 will see customers demanding price reductions which will mean existing suppliers are caught in a price trap. If they reduce costs significantly the users will question the supplier's current or initial rates, if they stand firm then they risk being significantly undercut by competitors.

Up to date

Moving away from cost and looking at other possible trends, suppliers and end users will need to be prepared for the age of virtualisation and 'outsourcing 2.0'.

Major technology users are beginning to insist on virtualised technology platforms. These platforms will offer reduced costs, increased reliability and may help in reducing carbon emissions. However, end users who are looking for vendors that can supply such technology need to be aware of data issues.

New data loss legislation means that organisations will need to en-

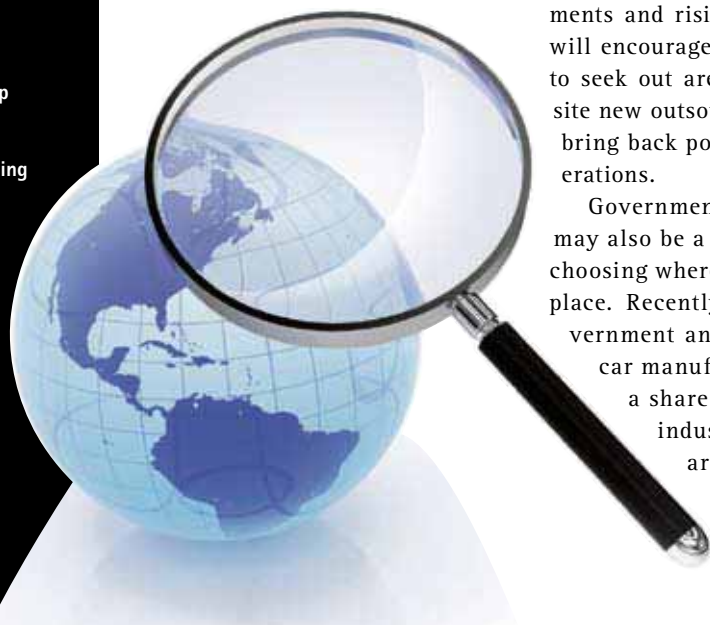
sure that security schedules within the potential supplier's processes adequately protect them from data loss and are in conjunction with local laws.

Professionalism key

The importance of training and accredited qualifications will increase. Holding onto and motivating key staff is paramount during an economic downturn. Until now, there has been no common best practice standard or benchmark for outsourcing. Professionals and businesses alike are realising that they must have clear credentials that stand out in order to attract the attention of employers or clients. Recessions do not last forever; organisations that invest in their people will keep key staff well motivated and professionally trained in order to pick up the new business wave and retain existing clients.

As a final key subject area, we expect that shared services will rise in popularity as organisations, particularly government, strive to meet the implications of massive borrowing. However, it is likely that only if the shared service is set up as an external service provider will they be successful. This will lead to many public sector groups placing business with those who show superiority and professionalism in supply and will have all the attributes (SLAs, commercial models etc.) of a fully blown outsourcing contract.

For more information please see www.noa.co.uk.



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MEDIA PLANET

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Cost reduction is back at top of management's agenda

“Your mess for less” is how business process outsourcing (BPO) has typically been summed up and, although the industry has moved beyond cutting costs alone, the current economic climate has once more made reduction of expenses the number one priority.

BPO rose to prominence in the 1990s and matured in the current decade as an industry which would allow, typically, a company to outsource its routine administration to staff dedicated to that role in an office in a part of the country or offshore where property costs and wages were considerably lower.

Large companies that were spending millions on white collar workers in the expensive capitals of the Western World, particularly in the USA and UK, were attracted by the large savings that were offered alongside promises the work would be performed to the same or a better standard with the client spared from having to directly fund new staff hiring, training or building and updating IT and software systems upfront.

The trend caught on and over the past decade some agreements amounted to multi-million pound deals as global enterprises entered in to ‘transformational’ projects that would see large parts of their back office outsourced to popular destinations such as India, the Philippines and East Europe.

Boom and braking

Nick Atkin, head of Deloitte's outsourcing advisory service certainly reveals that the first half of 2008 was a very active period in BPO with Europe Middle East and Africa (EMEA) clients overtaking their United States counterparts and accounting for more than half of new deals signed. Hence, three in four of the huge \$200m ‘mega-deals’ were originated by EMEA clients. However, the credit crunch then occurred and the latter half of the year saw an understandable slow down.

“After a really busy first half, last year slowed down considerably as companies turned their focus internally to examine what the credit

“It’s not surprising that in an economic downturn there’s a lot of tactical outsourcing where people are simply looking to get admin work done for less.”

Andrew Warren

crunch and global economic slow-down meant for them,” he says.

“As you’d imagine it’s meant that cost reduction is now key when companies are looking to outsource. To be honest, it always has been, but companies would dress it up as leveraging skills bases and the latest technology and mention price third or fourth on their list of priorities. Now, there’s no dressing it up, it really is the number one priority.”

Due to latter half of last year being spent by companies establishing strategies to survive the global recession Atkin also points out that he believes the major change for 2009, going forwards, is outsourcing is becoming far more based on company-wide strategy.

“It used to be very ‘siloeed’ where one part of a company would outsource one or more functions,” he says.

“We’re definitely finding now that it’s far more an issue at the board level and the CEO and CFOs are looking at outsourcing across the business rather than individual functions. They know they need to consider outsourcing more of their back office to cut down cost

and they’re now thinking of broader functions.”

Whilst this does, of course, show that outsourcing is becoming more strategic and being considered in a wider sense, Andrew Warren, Managing Director of Public Sector and Retail Financial Services at Vertex, points out that it also shows how outsourcing has matured.

“The guys who are at board level now are the same guys who were in middle management over the past decade when outsourcing started to become proven as a way of driving down cost,” he says.

“So, yes it is now strategic, but I think it’s always been strategic, just the guys who did the deals for their departments over the past decade or so are now in the board and realising it should be done across the business.”

These far-reaching enterprise-wide discussions have yet to lead to huge deals this year so far but Warren is confident they will later this year and next year.

“It’s not surprising that in an economic downturn there’s a lot of tactical outsourcing where people are simply looking to get admin work

done for less,” he says.

“However, where this gets really interesting, and what we are seeing coming up in the pipeline, is where a company uses outsourcing not just to drive down cost but actually effect change. When they decide they want to actually change the way they do something, such as interact with customers, then an outsourcer can actually use analytics, research and know-how to help them change their organisation.

“The conversations we’re having now are showing that there is a lot of interest in changing methodologies and not just industrialising processes so they can be done cheaper.”

Short-term plans

For the moment, however, all are agreed the market is dominated by the pressing concern to reduce cost yet, at the same time, there is a lot of uncertainty in global markets. Hence, whilst there has been much talk over the past couple of years of contracts being designed to last more than five or seven years, today’s outsourcing clients are looking for far shorter term arrangements with improved flexibility.

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Certainly, Iain Monaghan, partner at BPO solicitors Pinsent Masons is finding that clients are most likely to want to renegotiate existing agreements and ensure new contracts are short and have provisions for renegotiation written in to them.

“So many things can change, such as roles, personnel and technology that very few outsourcing contracts run their entire course without needing to be revised,” he says.

“Clients need to be very transparent in what they are looking for and what they expect but they still need to keep the contract on the table rather than filed away in a drawer as if it is final and will last the length of the initial contract. Often renegotiation can be a good thing for both sides because although it can redesign the agreement the client will often reward the outsourcer with an extension.”

The same trend is being witnessed among newcomers to out-

sourcing who, as one can understand, want to try it out for a couple or three years to see if it works for them before even considering the five to seven year deals that the more confident outsourcing clients had started to move towards before the recession.

Trust brings growth

The whole issue of clients becoming far more cautious underscores for Adrian Cole, Business Development Director of Global Outsourcing at Logica how the market has changed within the past year. In previous years confidence had grown and large corporations would seek tenders from half a dozen or even ten providers and be potentially open to long contracts. Hence, he believes, whilst the symptoms can vary from one area of BPO to another, the underline change in the market, the root cause of uncertainty is a simply lack of trust. This has not been helped by the scandal in India

of the large outsourcer Satyam admitting to fraud and false accounting to boost its apparent size.

“There’s a real issue of trust in the global economy, companies simply don’t know for sure whether they can trust one another and markets are far more volatile than normal,” he says.

“Satyam really didn’t help as we’re finding a lot of people are now very cautious about who they deal with. At the same time we’re noticing that the big transformation outsourcing deals are very much on the back burner and companies are simply going back to the basics of seeking to cut costs and head counts. There is still going to be growth in BPO globally but we think companies are going to see it reduced from around 30 or 40 per cent to more like 10 per cent.”

So it is a tough year ahead for all in BPO, although most are agreed the market will still grow but not at the rate it has done in the past.

Also, the management speak about transformation and leveraging best-of-breed technology and labour skills is set to be replaced by the sector’s original message of freeing companies from their administrative chores in return for cost savings.

However, as if to underline BPO is never entirely about cost the National Outsourcing Agency is predicting that Knowledge Process Outsourcing (KPO) will become increasingly popular over the next few years as companies seek to outsource high-end professional work, and not just administration. Hence medical diagnostics, legal and R&D functions, among others, will be outsourced, NOA predicts.

Right now, though, the message from outsourcers out in the field is the overriding demand from the market has definitely swung back in favour of outsourcing offering savings in the cost of running a back office.

Sourcing terms explained

Outsource – To contract a third party to run a business function for you

Insource – To do the job yourself, typically after it has been outsourced previously

Shared Services – When bodies come together to share an administrative task, such as several local councils running a single office to handle all their HR or council tax issues

BPO – Business Process Outsourcing, normally involves a part of the back office being outsourced, such as invoicing or purchase order reconciliation

HRO – Human Resources Outsourcing, normally sees payroll and other administration outsourced

RPO – Recruitment Process Outsourcing, handles the long-winded but skilled process of finding new staff and letting down unsuccessful applicants

ITO – Information Technology Outsourcing sees companies asking third parties to take care of their IT infrastructure as well as develop new applications and maintain their existing system

Nearshore – outsourcing to a location not too far away, typically East Europe

Offshore – outsourcing further afield to India, China and the Philippines

Multishoring – combining domestic, nearshore and offshore offices

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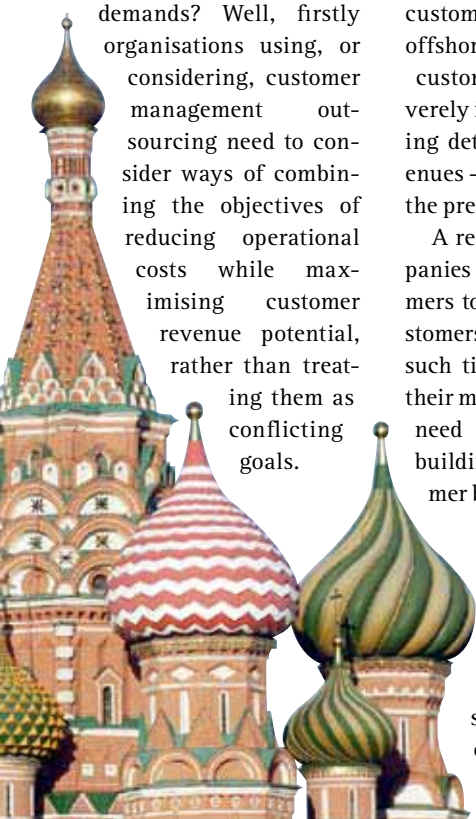
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Success in new and growing markets is vital

In recessionary times, organisations are principally looking to achieve three objectives; to reduce the cost of doing business, hold the top-line as far as possible in existing markets and enter growth markets for the future.

BY JOHN WILMOTT CEO OF NELSON HALL

So what does this mean in terms of customer management outsourcing and how do supplier offerings need to change to meet these demands? Well, firstly organisations using, or considering, customer management outsourcing need to consider ways of combining the objectives of reducing operational costs while maximising customer revenue potential, rather than treating them as conflicting goals.



Whole picture

If cost reduction objectives are treated in isolation, then there is a danger that, say, by moving all customer service to the lowest cost offshore location, customer satisfaction will be severely impacted with a corresponding deterioration in company revenues - the worst possible impact at the present time.

A recession is a time when companies cannot afford to lose customers to their competitors. New customers may be hard to acquire in such times and so, particularly in their mature markets, organisations need to focus on retaining and building on their existing customer base.

Accordingly, organisations should start with the primary goal of protecting the top line through customer retention and focused up-selling and cross-selling and then ask how this can be optimised by channel and supported by data analytics to achieve maximum

payback and reduced cost of service delivery.

Emerging markets

Then, the other major area of expansion of customer management outsourcing in the current environment is support for new high growth geographies. The world is becoming much flatter and this includes access to markets and not just access to low-cost delivery. So an objective for many organisations, mid-sized as well as multinationals, is to take advantage of the relatively rapidly growing consumer markets in the emerging economies of much of Asia, Latin America, and Eastern Europe.

Here the customer management outsourcing challenge is less about reducing delivery cost, though new low cost channels may be particularly important in these relatively youthful markets, than about access to local and customer management expertise and the ability to scale to meet demand and build leadership in these markets at an early stage in their development.

Expert opinion



How is the economic climate shaping customer management outsourcing?

In the current climate companies need to realise operational efficiencies and cost savings to enable them to maintain their competitiveness. We are finding offshore is moving up the value chain as part of this and a broader business reengineering process.

The normal thing in any economic downturn is for businesses to retreat back into their core areas of profit and ride out the storm. In an economic downturn the drivers for change are incredibly strong and require a proactive re-assessment of the customer management process. It's an area of both huge opportunity and cost savings - strategic players within the global sourcing sector can offer an alternative costing solution but also, perhaps more importantly, flexibility.

What should a client look for in the partner they outsource customer management to?

There are a number of core areas that should be considered when looking to outsource customer management activity, fundamentally these should include items such as a strong balance sheet, demonstration of expertise and experience and tried and trusted processes. One particular aspect, we are seeing, that has leapt to the forefront of the selection process is security provision - specifically the outsourcing partners abilities to look after huge databases of information and manage them in appropriate ways to add real value to the customer management process.

Keith Price, Divisional Managing Director of Teleperformance UK

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10 reasons why outsourcing customer service makes economic sense

Business Process Outsourcing (BPO) is growing rapidly. According to Datamonitor, the global BPO market will reach a massive \$411bn in 2013 with the demand for outsourced services benefitting from a corporate focus on cost-cutting and process re-engineering.



Chey Garland CBE, Chief Executive, Garlands Call Centres

Contact centre outsourcing is a vital part of the overall BPO picture with leading operators such as Garlands

delivering a wide range of phone, email and internet-based services from customer acquisition to customer service, technical assistance, customer retention and debt collection.

Here are some of the reasons why more and more public and private sector organisations are choosing to outsource their customer contact functions:

1 Lower operational costs: By outsourcing, you don't need to go through the costly and time-consuming process of recruiting and training personnel, managing attrition and maintaining technology. A contact centre outsourcer can take all that expense off your hands.

2 Reduce capital costs: Outsourcing can relieve you of the burden of buying and equipping buildings, buying technology etc. - freeing monies to increase working capital.

3 Concentrate on key strengths: By bringing on board expertise in areas such as customer contact handling and back office, outsourcing will free your managers' time to concentrate on what they do best.

4 Enhance service quality: Through more efficient contact handling, better trained and more experienced Advisors, better technology and a heightened focus on understanding and meeting customer needs, outsourcing can boost service levels.

5 Improve performance: Regardless of whether your Key Performance Indicators relate to customer satisfaction, sales, first call resolution or customer retention, outsourcing can help you exceed targets and boost customer loyalty.

6 Meet short term and seasonal requirements: Outsourcing is perfect for short term tactical marketing campaigns and for meeting unex-

pected or seasonal peaks in contact volumes.

7 Faster time to market for new products: Outsourcing is the perfect solution when you need to rapidly set up support for new product and service launches.

8 Access to new skills: A specialist contact centre outsourcer will provide skills and areas of expertise that often can't easily be accessed using in house resources - such as customer lifecycle management, upselling, cross-selling and collections skills.

9 Access to new technologies: Outsourcing can provide cutting-edge technology resources - such as unified communications, speech analytics and advanced workforce optimisation - together with the experience of knowing how to deploy these resources in a customer contact setting.

10 Improve your contact handling processes: Finally, an experienced contact centre outsourcer can help you improve processes in order to serve customers more efficiently, faster and more cost-effectively.

By Chey Garland CBE, Chief Executive, Garlands Call Centres 01429 422422 www.cjarland.co.uk



Serving customers more effectively

As the customer contact industry has grown and diversified, so the needs of contact centre outsourcers have become a lot more complex.

Organisations now not only task their outsource partners with delivering great customer experiences but also measure them on their ability to do so while minimising cost-to-serve. In addition, they must often operate on a global scale and deliver a broad range of services from Telesales and Telemarketing through to Customer Service and Collections.

In this complex world of customer contact, the key to successful technology deployment is 'flexibility'. In order to meet client demands quickly and effectively, outsourcers must be able to replace or add new technology to their contact centres incrementally or all at once, as well as to deploy features and functions with minimal need for customisation.

Today, Aspect provides many of the world's leading outsourcers with unified communications applications to meet these aims -

while adhering to heightened Ofcom (and other national) regulations and navigating evolving communications channels such as web collaboration, Instant Messaging, video calling, email and SMS.

Unified communications applications offer a brand new way to target key business processes while delivering a specific combination of capabilities that yield important benefits. With Aspect products, outsourcers can:

- Optimise outbound campaign segmentation strategies using information such as demographics, customer profiles, account histories, delinquency levels, credit and risk scores, and regulatory and contractual criteria to target the right people and treat them in the right manner
- Engage customers via on-demand anytime, anywhere service representatives, using a variety of communication channels and interoperating with offshore IP-based network in-



Anita Marsh, Marketing Manager of Europe and Africa, Aspect software

frastructures to support browser-based empowerment tools and management software

- Manage contacts using industry-specific segmentation rules, regional legislation and cultural nuances, ensuring client expectations and service level agreements are met
- Deliver customers and prospects, along with associated data, to the most qualified representative or self-service resource based on each client's pre-defined preferences, unique business rules, or government-mandated constraints
- Satisfy process-specific transactions with sophisticated scripting

and information delivery, while ensuring client confidentiality and business intelligence integrity

Modern IT-ready unified communications for the contact centre applications are built keeping in mind the challenges that outsource organisations face. They eliminate IT complexity by reducing the number of integrations necessary across applications, removing system fragility caused by proprietary equipment, and consolidating redundant servers and software while reducing the additional connections these systems require. It's an approach that can:

- Lower implementation costs by 20 to 30 per cent
- Reduce maintenance costs by 30 to 40 per cent
- Minimise complexity through the use of standards-based software
- Decrease security risk by 50 to 60 per cent

*By Anita Marsh, Manager, Marketing, Europe and Africa, Aspect Software
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Recession likely to see outsourcing increase

In a world where we have continuing overcapacity, increasing globalisation, the commoditisation of some services, the emergence of new technologies and what appears to be a prolonged depressed economic outlook.

BY BHARAT VAGADIN CEO, OP2I AND BOARD DIRECTOR, UK NATIONAL OUTSOURCING ASSOCIATION

One thing is clear: organisations large and small face an era of exceptional competition and this trend is likely to continue for some time, beyond the current economic cycle.

According to a recent global survey by Op2i, the general consensus within the industry among more than 50 per cent of respondents (including users, suppliers and

advisors) is that the outsourcing industry will benefit from the looming recession, with outsourcing and in particular offshoring seeing continued growth, both in terms of the types of activities being outsourced and the types of companies contemplating using outsourcing. This number could have been much higher, if it was not for the fact that

many companies have adopted a 'watch, wait and wonder' strategy as the recession takes hold.

Not just cost

As most academics and practitioners will tell you, outsourcing has the potential to provide significant range of benefits to organisations, with survey respondents

indicating cost savings (45%) and productivity improvements (40%) as being the most important. At a macro level, 90 per cent of survey participants suggested outsourcing and offshoring has a positive effect on the domestic economy, through access to new skills, labour and the ability of developed economies to compete with emerging countries.

Organisations generally make a strategic choice to outsource in order to improve focus on their core competence (these will continually change over time) and with improved organisational performance following behind, cost reduction in many senses is just assumed to be part and parcel of outsourcing. Organisations generally do not expect to improve quality of service dramatically through outsourcing - most simply seek greater scalability and capacity from outsourcing.

Failure concern

The empirical evidence from outsourcing however has not been overwhelming. Although the statistics vary, typically between 25-40 per cent of outsourcing deals are not deemed by the client organisations to be a success. Not all of this is down to the vendor. Most organisations just do not have the experience, skills and capabilities internally to successfully plan, implement and manage an outsourcing programme. Many outsource for the wrong reasons and to the wrong vendors.

Most underestimate the time and effort involved in managing the relationship and so frequently it is because of poor vendor management, governance and communication that these relationships turn sour.

Many in order to overcome such internal gaps in their organisational capabilities turn to niche outsourcing specialists (43%).

Although every country is now trying to position itself as an outsourcing hub, India still leads as a destination (key drivers being the availability of skilled workforce and its existing track record). China, Philippines, UK and Ireland follow behind but for different reasons. India, Philippines and China all offer quite different value propositions and in many ways compete for quite different aspects within the outsourcing value chain: India for specialist skills (e.g. ITO and KPO), Philippines for customer facing language capabilities (e.g. customer centric BPO) and China for general back office, lower skilled BPO and one which does not need significant English language interaction.

Data protection however remains a concern for more than 60 per cent of respondents and so given that communication and vendor management are critical factors for successful outsourcing programmes, it will be interesting to see how the relative newcomers overcome these major concerns.

It would be an understatement to say we live in challenging times and no doubt the next two years will continue to be difficult. It is at such times that innovation thrives, and we are likely to see not just more outsourcing activity but more creative approaches with the SME market.

Thanks to all the survey respondents across the globe and sponsors of the survey. Readers can obtain a copy of the survey report by visiting www.Op2i.com

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Is offshoring really bad ethics?

With a global recession upon us, there is little doubt that, ethically-speaking, outsourcing is facing its toughest challenge to date.

Not only has India been rocked by the scandal at Satyam, whose head admitted to false accounting to boost the outsourcer's apparent size, but in more general political terms, the pressure from within to outsource and save cost is being countered by less appetite among the British public to see domestic jobs lost to a cheaper labour market offshore.

Alan Braithewaite, Chairman of LCP, a consultancy which advises enterprises on ethical supply chain management and outsourcing, believes the same pressures that have been put on brands selling physical products, particularly food and clothes, will soon start to be extended to services.



"I am definitely now seeing that during an economic downturn service outsourcing is becoming more contentious and political," he says.

"People are identifying outsourcing as meaning fewer jobs for locals and so clients are having to balance the cost reductions against the overall risks. Companies are very concerned about their CSR, their corporate social responsibility, but there's virtually no data to measure the sustainability of outsourced services provider. So, ethical outsourcing is a big issue but right now I'm finding that when corporate strategy demands cost cutting through outsourcing services, it is taking a bit of a back seat."

Company first

Similarly Alan Leaman, CEO of the Management Consultants Association assures concerned managers that whilst there may be some short-term questioning of outsourcing, long term thinking is normally best. Indeed, there is an

ethical imperative on business decision makers to ensure their companies survive.

"Although taking jobs offshore to access the right skills at the right price, may lead to job cuts in the short term, in the medium to long term, experience tells us that organisations become stronger and more competitive, which will in fact create jobs in other areas of the business," he claims.

"MCA research has found that financial services companies found that outsourcing had freed up management time and investment funds to concentrate on more value-added front-office work. Businesses and government's strongly advocate that free trade principles must continue and consultants must always advise organisations to use appropriately skilled people wherever they are in order to strengthen the organisation and their ability to thrive."

Training key

There is also the point that out-

sourcers are actually already under pressure to treat staff well to ensure their loyalty and so clients need not worry about a negative impact on their brand name. As Mark Beaton, Head of Outsourcing at Accenture, points out, outsourcers who do not look after staff would soon go out of business.

"As a company we spent more than \$700m on training last year and I can't see how an outsourcer that doesn't develop its staff would survive because they would find their best people would leave," he says.

"Sometimes people don't realise that if someone's doing an administrative roll within the same company they can end up doing that same job for many years but with an outsourcer we can actually offer a person a varied career where they get good training and can move roles within the same company. Often the roles are within the UK, half of our revenue in Britain, for example, comes from outsourcing services."

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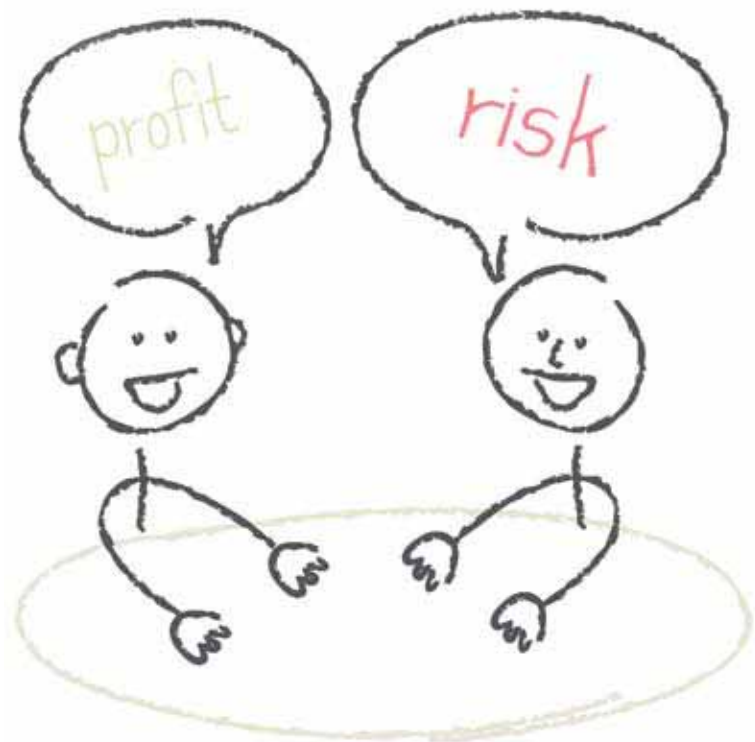
■ STEP 2

Define - We analyse and assess your requirements within your competitive environment, identifying and scoping a 'Point of Most Impact' objective, formalised into a Business Requirement Document.

■ STEP 3

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Nearshore or offshore?

Once a company has decided to outsource, the big question will always be not only how much of a particular function are they willing to outsource but, crucially, to where?

Originally the main destination was to 'offshore' in India and the country still leads as an outsourcing destination because it ticks the proverbial boxes of language skills, technical know-how, a mature legal system, cheap labour and stable political system. Similarly the Philippines, which had close military ties to America and hence good language skills, has proven a popular destination.

However, since the initial boom in Indian outsourcing in the early 1990s, the EU has expanded to incorporate several countries which can tick as many, if not more, boxes as India and the Philippines but have the advantage of being much closer to home and ruled by common EU laws and best prac-

tice. These East European countries, such as Poland, Hungary and the Czech Republic, are proving an increasingly popular destination thanks to high language skills and, particularly for IT, excellent universities.

First steps

Behind its obvious appeal of proximity to the UK, East Europe also offers a soothing stepping stone which British companies can take before considering whether offshoring further afield is for them. According to Matt Havens, Director of Europe for Cognizant's Business Consulting Group, many European companies are not always confident enough to offshore before they have at least tried nearshoring first.

"There are many language and cultural issues to consider when outsourcing and so once a company does go for outsourcing they can find that offshoring is just too big a step all at once," he says.

"So we're finding that a lot of our customers choose to nearshore at our facility in Hungary because it's within the EU, the time difference is negligible and it's only a short flight away. We often find that when it works for them in Hungary they're then far more comfortable considering using our facilities in India."

Another factor which is causing companies to consider nearshoring, rather than automatically assume offshoring is the only option, is labour turnover and wage inflation. Whilst some offshore regions were very cheap a few years ago, demand for the best talent has pushed wages up and caused staff churn to rise among some offshore outsourcers. Wage rates are still

competitive, only not to the same degree as they once were.

Contracts and IP

Exposure to legal risk is often a deciding factor in whether to offshore or nearshore, according to Simon Colvin, a partner at legal firm Pinsent Masons and specialist in public sector outsourcing contracts. He points out that whilst some work is not actually eligible to be offshored, those who are considering offshoring need to seriously look at the legal system in the countries they are considering.

"In a downturn public sector work is still pretty constant and so beco-

"In a downturn public sector work is still pretty constant and so becomes very appealing to outsourcers ..."

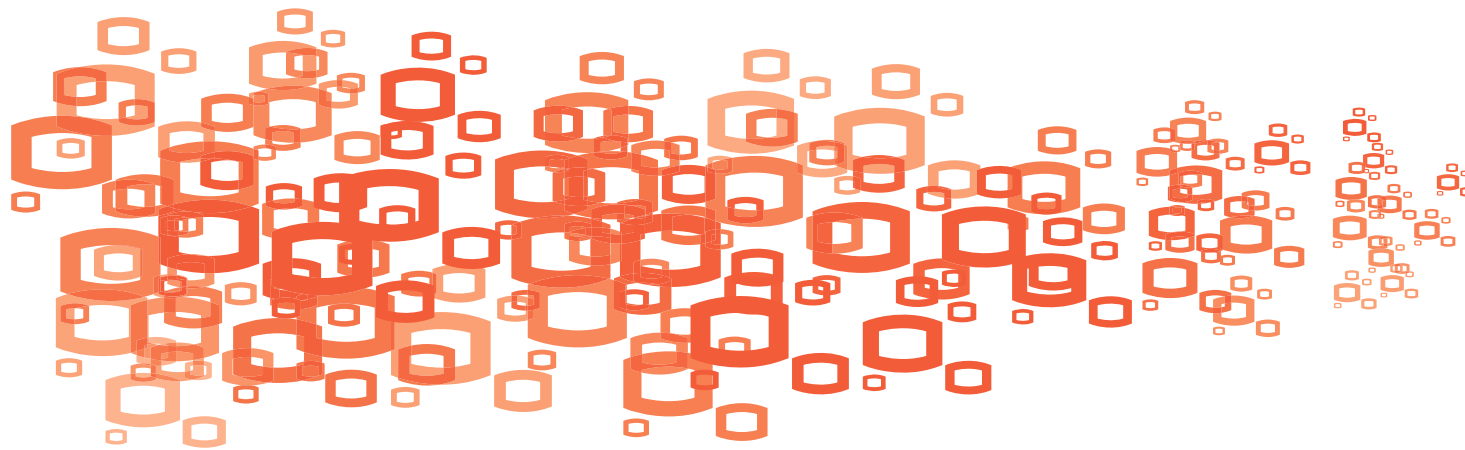
Simon Colvin

mes very appealing to outsourcers but a lot of the work, for security reasons, can't leave the country, so it would have to actually be carried out within the UK," he says.

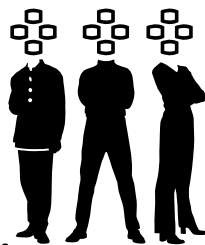
"With offshoring companies have to take advice on the legal systems where they're thinking of going. Hence a big issue is China, it's growing in outsourcing but, with respect, it's not get the best record in protecting intellectual property (IP). So, we would add that to our advice if a company were looking to actually have something of IP value used abroad or developed abroad.

"There can often be discussions, if you work with a third party, over who actually owns the final IP so it's important to be aware of the potential problems with offshoring in different locations, particularly if it's an IT project built around open source, freely available software where interpretation of final ownership can vary."

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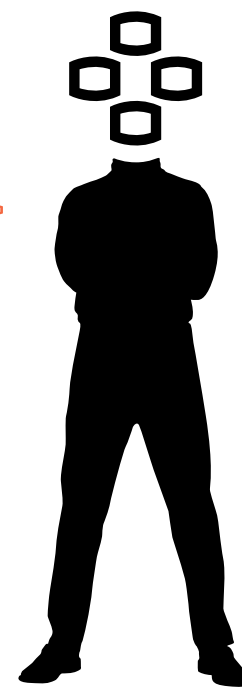
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Financiers outsource back office

Personal and corporate finance businesses generate a huge amount of daily deals and transactions which require a dedicated back office team to 'execute' to ensure a buyer and seller's accounts are balanced.

Given that these companies are normally more concerned with innovative products and marketing, it is not surprising to hear that they have been at the forefront of outsourcing back office work to lighten their own administrative load.

However, with this process well under way, it means that those offering financial outsourcing are having to be far more innovative than before to attract clients, according to Peter Brooks, Managing Direc-

tor of Lloyds Development Capital (LDC). He invests in outsourcing companies and has noticed a major shift in the market towards companies requiring a lot more than just help with their back office.

"A lot of the proverbial low hanging fruit has been picked now," he says.

"We're finding that companies may have already outsourced a part of their finance function and now they want a deeper conversation

about what else an outsourcer can do for them. They don't just want a company that can settle up their business with the other banks at the end of trading, they want an outsourcer that has an advantage in technology, in software, in its people and who can handle more of its documents with greater professionalism.

"So, the conversations we're now having around finance outsourcing are far deeper than in previous years and so they're taking a lot lon-

ger. Today the outsourcers need better management to ensure they can have these deeper conversations and then deliver on quality as well as help to keep costs down."

Local accounts

Whilst many areas of sourcing are expecting the early adoption enjoyed from large enterprises to trickle down to small and medium enterprises (SMEs) many experts are predicting that finance's ex-

pansions may be slightly more limited.

Perhaps, ironically, accountancy is the first role any young business will outsource to an expert firm but according to Steve Priddy, Director of Technical Policy and Research, the Association of Chartered Certified Accountants (ACCA), that is often as far as most companies are willing to go.

"Most businesses will probably outsource doing the books and preparing end of year accounts to an accountant or firm of accountants but they often won't look on it as outsourcing," he says.

"Typically an entrepreneur will launch a company and run it and will then get in an outside accountant and over the years that person will become looked upon as a trusted adviser to the business who's virtually an extension of the boardroom. Then if the company starts to do really well they might look to hire a finance director who will be probably only second in command to the managing director."

Priddy maintains that the feedback he gets from his members and from his own experience is that while companies may consider outsourcing some back office work, they are very unwilling to allow their books or their accounts to leave their home town. It is the one area where he believes outsourcing has always existed but is confident it will not go much further because SMEs form a strong bond with their outside accountant over many years and will not want to risk their accounts and financial preparations being made by a stranger in a remote part of the world.

The little things make a big difference

As the leading player in mid-market private equity, LDC invests equity of between £2m and £100m in MBOs, equity release and development capital, with the ability to take both minority and majority positions.

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It's about understanding how a business works and knowing where and how we can make it work better.

With over 27 years practical experience in a wide range of sectors, LDC's experience of outsourcing is evident in the way we support the operational efficiency of our existing portfolio of businesses, and the knowledge that it's often the little details that make a big difference to the success of a company.

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If you'd like to see how LDC can make a big difference to your business, contact Peter Brooks or Joanne Milner for more information.

Email: pbrooks@ldc.co.uk or jmilner@ldc.co.uk or call 0207 758 3744

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Private Equity Less Ordinary

Choose HR outsourcing that drives your efficiency

HR has been transformed over the past decade or so from a part of the business where necessary chores got done, such as paying staff and pensions, to a management team dedicated to steering corporate strategy and then ensuring the right people are hired and retained to deliver growth.

This transformation from being an administrative to a strategic department has been, at least in part, made possible by companies outsourcing some of the HR function so staff are freed from payroll and entitlements works to concentrate on hiring, developing and retaining talent.

Dr Anthony Hesketh, Associate Professor at the Management School at Lancaster University points out that although there are potentially clear gains, many companies are finding it very difficult to decide whether to overhaul HR themselves



or consider admitting a third party might be better placed to take on much of its functions.

“Companies often don’t want to think that someone else can do their HR for them better or cheaper and so they will sometimes go through the process themselves,” he says.

“They’ll put in a programme of internal change to reorganise HR staff and then put in new systems

and technology designed to bring down cost. This can often take years to go through and, according to my research, can cost a global company something like £250m.

“It’s when you work out how much it costs to do it yourself that many companies realise they might be better off losing the cost of ownership with all these new systems and let an outsourcer handle it for them.”

HR sums

Hesketh points out to progress its HR function a company first needs to at least be open to the thought another company might be able to run its HR more efficiently and then, crucially, it also need to know how much is spend on HR, something which surprisingly few actually do.

“A typical HR function in a large

multinational company with operational expenditure of £4bn or so will be around the £100m mark,” he says.

“It’s a lot of money but small beer compared to overall expenditure and so sometimes companies find it’s too much effort to save money on something that’s less than 1 per cent of their total expenditure. However, the point is, it’s still a lot of money and there could be potential savings that could be put to good use.”

Tricky issues

One of the big problems with such large scale ‘transformational’ HR outsourcing deployments is that according to HR outsourcing advisor and Member of the Management Group at PA Consulting Group, Tim Palmer, there are so many small details that can get in the way.

“The big issues are language and regulation, particularly for companies with offices in several countries,” he says.

“There are also lots of issues around different employment laws in each country and different taxations systems that means there are just so many small details to get right.”

Another potential barrier to outsourcing HR is a feeling in many companies that it is at the core of the business and should not be outsourced. According to recent research published by HR Outsourcer, Ceridian, four in ten businesses cited HR as a ‘no-go area’ for outsourcing and, among those that have outsourced some of their HR function, only one in three programmes were actually driven by the HR director.

Outsourcing offers a lifeline

Managing your pension risks and costs in an economic downturn

In an economic downturn companies need to focus all their energies on the revenue generating activities that are core to their business. They need to manage costs and increase efficiency throughout their business. Most organisations have large internal departments such as human resources and accounting, but the cost of running these functions has become a major financial burden for firms.

As well as operating costs, organisations are also responsible for making sure these functions are well governed; comply with regulatory and legislative changes; meet their employees’ needs; are resourced with skilled people and have the flexibility to adapt as the organisation develops. This investment is sometimes hard to maintain.

Many businesses are appointing specialist agencies to either co-source or fully outsource some support functions. Mercer, a global leader in human resource outsourcing, has

seen a growing demand for its services. Jonathan Mindell, Mercer’s UK and European outsourcing business leader, explains, “businesses have three key concerns when they approach outsourcing: cost, risk and service.



Companies are looking to save money both now and in the future. They look to us to provide cost transparency and certainty to help them with their budgeting. We also highlight true value for money with the depth and quality of service that befits a global specialist in this field. In addition, issues such as regulatory changes, technology, expertise, resources and capacity are the reasons why companies are looking to outsource. Clearly the time and resource spent on these issues also detract from them focusing on their core business.

Moving to an outsourcer can raise concerns for some businesses such as data security, privacy and management; people issues; disaster recovery and member satisfaction. A good outsourcing partner will guide you through these issues and address any concerns. Our project management team will manage the transition to reduce risk. We also allocate a dedicated point of contact to your scheme once the transition is completed.

Our service is efficient, high quality and designed to meet the needs of our clients and their employees. We put members at the heart of everything we do, as we understand that keeping scheme members satisfied, keeps our clients happy”.

Outsourcing is a viable option for companies that are looking to reduce costs and risks while maintaining or enhancing service to their employees. Selecting a partner that has the right skills, experience and adaptability to meet your needs is the key to success.

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Four companies of various sizes and different challenges, find solutions that work with their business models and are easy and economical to implement.

When Fujifilm acquired Avecia's Inkjet and Electro photography businesses their payroll needed to be changed. The new company (FFIC) needed a system that could run without an internal payroll team, be quick to implement, require little IT investment and would keep costs down – while being administered by just one person. Fujifilm believed that the services should be transparently priced and require minimal investment in IT infrastructure and maintenance. ADP's web native payroll solution, ADP freedom, was a perfect fit. It required no new hardware purchase and could be implemented right away. It also allowed FFIC to run reports and see payroll data at any time and from any location.

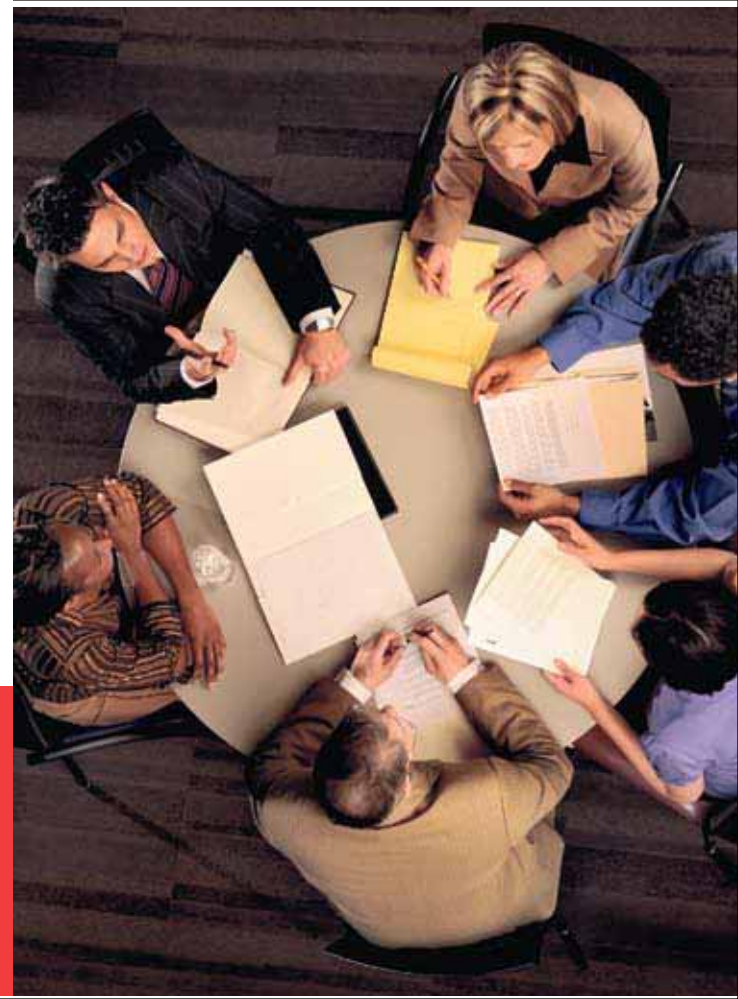
Sharp, the electronics company, sought a payroll partner that would provide world-class payroll support and implement the service on a tight timescale. HR functionality needed to be part of the package. ADP freedom's bureau service option allowed Sharp's Payroll and HR department to retain maximum control over the process, whilst benefitting from ADP's processing service expertise and the extra functionality provided by the ADP freedom on-line software application. ADP's Employee Self Service allowed employees to view pay slip details online, update personal details and request annual leave.

Nimax, owners and managers of five West End theatres, were seeking to improve an extremely complicated in-house weekly payroll. Their unique challenge, required by the theatre industry, was for staff costs to be precisely recharged to individual show productions each week. ADP freedom and ezLaborManager enable an end-to-end payroll process with data input only once, at source and fed directly to the payroll system. A clear analysis and pay data breakdown, plus seamless day-to-day running of the process by ADP, ensures that their shows will always go on.

World Challenge is a travel expedition company for youth. But with full-time and part-time employees spread across the UK, working limited and irregular hours and paid on an hourly basis it was costing World Challenge time and money through inefficiencies and incomplete data. ADP freedom integrates different pay methods into a single database, allowing the HR department to see all employee data in one place. HR and payroll staff can also run up-to-date reports at any point in the pay cycle, pull down details on the cost centres and analyse these figures when required. World Challenge utilised their new clear view of their expenditures to rationalise expenses and therefore realised significant cost reductions.

Four unique challenges.
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ADP has helped these companies free up time and enabled their HR departments to focus on core activities, improving efficiency, effectiveness and ultimately making these companies more competitive in their respective industries.





Your outsourcers take care of IT

Five years ago there were only basic vanilla ETFs on well-known indices, but the market's innovative providers have not been blind to the potential of developing markets and overseas products are now proliferating.

If there is one current trend in outsourcing that is felt more in the IT sector than any other, in addition to the well-documented desire among companies to drive down cost, it is clients seeking to avoid funding projects upfront by raising large amounts of capital expenditure.

IT costs are large and can include equipment, software and highly skilled staff and so the sector, more than any other, is seeing a major shift from upfront capital expenditure in favour of long-term operational expenditure.

As Stephen Lockey, Marketing Manager for Strategic Outsourcing at IBM's Global Technical Services division sums up, companies are finding the prospect of spreading the cost of IT restructuring, rather than finding the money at outset, very appealing.

"The credit crunch has meant it is far more difficult for people to raise finance for big IT projects," he says.

"Turning this upfront capital expenditure in to longer term operational expenditure by getting an outsourcer to take care of your IT infrastructure needs is becoming

increasingly popular. We're finding the three questions that companies are coming to us asking are; can you save us money, can you run my IT better than us and can you turn capital expenditure in to operational expenditure?"

As such Lockey light-heartedly sums up the market as being similar to people increasingly looking for an alternative to buying cars and wondering instead if a leased solution with a supplied chauffeur would work better. Hence this reliance on a third party to run IT on a company's behalf is seeing increased scrutiny of service level agreements (SLAs) which need to be adapted to ensure each part of a business has the level of cover it needs, depending on how critical it is.

Looking forward

The IT outsourcing market is also central to the wider outsourcing debate going on within boardrooms across the country, he believes. In this conversation companies are asking themselves what do they do best and what could they consider outsourcing. Often, for a company

that does not have IT at its heart, top management can consider allowing their infrastructure and the desktops, laptops and software that run on it to be handled by a partner because there is no major emotion attachment to the technology that allows the company to carry out its core competency. In many instances, he reveals, these companies are not only seeking cost savings right now but also planning for the future.

"You can take the 'same mess for less' approach and outsource purely on price but we're noticing a lot of companies are actually looking to outsourcing to change the way they do things, for them to become better

"India produces 400,000 engineers and trained technical people every year so the supply is there and we're definitely noticing that things are starting to pick up."

Rajeev Sawhney

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and more efficient," he says.

"It can be tempting in a downturn to sit on the equipment you have got and not do anything but we think a lot of companies realise you can only do that for so long before you lose your competitive edge. It's well known that the companies which invest in new systems in a downturn are those which are best placed to leap out of recession the quickest once the economy recovers and that's what we think is going to be behind new activity in what will still be a tough, competitive year ahead."

Whither IT in India?

The global economic downturn is being feared in India, the traditional home of ITO, where executives recently congregated at the annual NASSCOM conference to compare notes on the reduction in work emanating from Europe. However, Rajeev Sawhney, President of HCL Europe still believes that despite fears about how the downturn will affect India (where HCL is headquartered), the country will continue to do well.

"Growth is obviously going to slow in India but we still think that it will

around the 20 per cent mark this year, compared to the 30 per cent to 35 per cent many companies have enjoyed over previous years," he says.

"India produces 400,000 engineers and trained technical people every year so the supply is there and we're definitely noticing that things are starting to pick up. Financial services, which was a hugely important sector for IT, is starting to show an interest again having gone very quiet recently, for obviously reasons."

Whilst there will be growth still in ITO globally this year, as well as in India, Sawhney believes that the outsourcing community will have to become accustomed to a shift in spending patterns and demand that will persist throughout the down turn.

Less on development

"I'd estimate that normally most companies' IT outsourcing would be 60 per cent for running and maintenance and 40 per cent for new development work," he says.

"That's changing as companies don't want to spend as much on development and they're keen to cut costs on running and maintain-

ing their systems. So, I think it's going to be more like an 80 to 20 split now between maintenance and development."

Similarly BG Srinivas, Head of Europe for Infosys agrees that ITO providers need not fear being overtaken by European rivals but does contend that those companies which can be supple in how they provide their services and keep abreast of developing technologies will fare the best.

"We expect growth to continue, albeit the rate of growth will likely be impacted in the short term," he cautions.

"We also expect to see an uptake of key technologies such as interactive television through to mobile phones and global communication solutions. Additionally, the future of business services is going to lie in a 'pay-as-you-go' model where organisations set up an end-to-end solution and allow customers to plug in and use as per their requirement without having to incur their own capital expenditure."

East Europe rising

In East Europe, as one might imagine, the message is similar, al-

"The credit crunch has meant it as far more difficult for people to raise finance for bit IT projects."

Stephen Lockey

though local players are claiming the year ahead will see their growth occurring at the cost of the Indian giants. Cleve Gibbon, CTO of Cognifide, which has bases in the UK and Poland, believes the fall of East European currencies, particularly the Polish Zloty, is a welcome development as it will help attract British IT projects.

"With the fall in the pound, East Europe was looking a little more expensive last year but then Poland, Hungary and Russia have all seen their currencies go down in value which, ironically, is good news for us as it makes the region more competitive," he says.

"We're noticing that British companies are doing a lot of web development and building social networking capabilities but also, crucially, they're building customer relationship management sy-

stems which they hope will help them to get more out of their existing customers - which makes sense in a downturn.

"We're noticing that when it's critical work like this and could involve customer data, companies are keen to keep work within the EU and just a very short flight away or even, like with us, dealt with in Poland but via a UK office."

Small scale focus

So, after some very strong years of growth the recession is meaning that IT providers are critical in helping clients roll out new infrastructure profits by turning an upfront capital cost in to a long term monthly fee. At the same time, new development work is likely to play less of a role as projects become focussed on small scale new applications and maintenance contracts start to move more to the fore.

The silver lining for all ITO providers is they know that companies who have put off IT investments last year and perhaps this year will soon find themselves having no option but to reinvest further down the line.

Unipart pioneers a new approach to outsourcing with Computacenter

The outsourcing landscape. All too often, outsourcing makes the headlines for the wrong reasons. People hear about large-scale outsourcing projects in the public sector that fail to meet deadlines, budgets and efficiency targets and question whether it is the right kind of approach for them.

There is no one-size-fits-all approach to outsourcing but there are new trends emerging which are changing the way that companies and IT providers work together.

A new way of working

Unipart Logistics, the logistics arm of the Unipart Group, is one such company that is taking a new approach to outsourcing. Earlier this year, Unipart agreed to a five-year IT managed services agreement with IT services and solutions provider Computacenter. The agreement combines Unipart's 'Lean' principles

with Computacenter's Shared Services Factory, a methodology based on tried and tested practices that enables Computacenter to reduce costs and risk for its customers.

This 'Lean IT' relationship is jointly informed by and benefits both organisations. For Unipart, this means cost reductions and service improvement and for Computacenter, it is helping to develop the Shared Service Factory's set of best practices which will, in turn, benefit other customers. Both organisations see scope for further improvements as 'Lean' is a journey

enabling both Unipart and Computacenter to continuously improve over the lifetime of the contract.

Carl Powell, CIO for Unipart Logistics and Manufacturing explains: "Most IT industry experts believe that creating long-term relationships between suppliers and customers is important. I go further and believe that strategic, reciprocal partnerships will deliver more value to both parties. Combining the 'Unipart Way' with Computacenter's best practice IT processes will deliver real value."

Under the agreement, Computacenter will be responsible for supporting more than 2000 Unipart staff in the UK and moving part of Unipart's service to Computacenter's offshore facility in Cape Town. By relocating support and transforming its server environment, Unipart will be able to cut costs, reduce carbon emissions and increase business agility.

Powell adds: "Computacenter has offered us a low-risk deal at a guar-

anteed price point. Our customers expect high quality yet cost-effective logistics management and services. By working with Computacenter, we can scale our IT to meet seasonal fluctuations and minimise operational overheads both for Unipart and our customers."

The outsourcing outlook

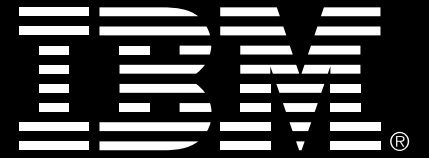
Relationships like the one between Unipart and Computacenter are likely to become much more common as organisations make every effort to get the greatest possible return from their IT investments. As a result of this, 2009 will be a watershed year for IT as businesses start to reconsider their approach. Many CIOs will start to consider cost-cutting approaches they may have previously disregarded, such

as outsourcing, offshoring and sharing infrastructures with other organisations.

As a result, the recession will force many companies to look at significantly cutting the cost of their IT that 'keeps the lights on', with larger budgets being reserved for bespoke technology that will give them a competitive edge. New approaches like 'Lean IT', being developed by Unipart and Computacenter, are providing innovative, cost-effective IT delivery during a recession.

There may not be a one-size-fits-all solution to outsourcing and IT transformations but by working closely with supplier as partners to jointly challenge and improve IT, businesses will be in a much better position to achieve business efficiencies and cost savings.





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