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Q&A: TPI's Gerry Clark on the Major Trends in Offshore Outsourcing

Richard Mills

July 30, 2007 (Computerworld) *As sourcing advisory firm TPI's regional head for Southeast Asia, Gerry Clark brings years of experience in outsourcing in the Asia-Pacific region, India and China. He spoke with Richard Mills about trends in the offshore outsourcing industry.*

What are the major trends you are seeing in the large global outsourcing deals you are advising on? Contract duration is coming down. The first- and second-generation deals were seven to 10 years. They are now closer to five to seven years. This results in smaller total contract value.

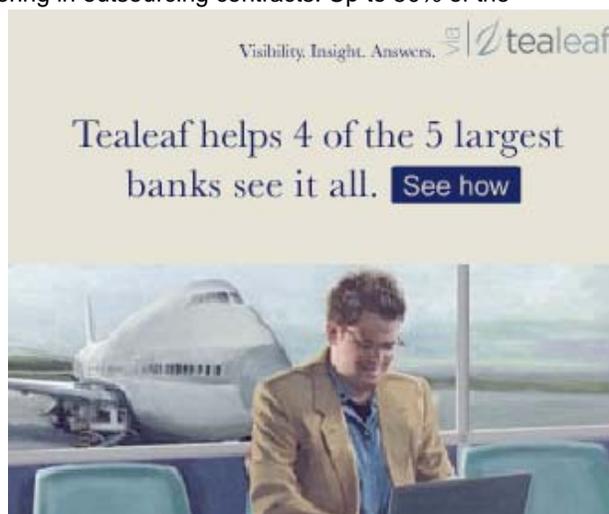
Another trend is the proliferation of offshoring in outsourcing contracts. Up to 50% of the transactions TPI is involved in have an offshore component. Clients are more predisposed to look at and engage with service providers who have an offshore service delivery capability. This, in turn, is also reducing total contract value.

We are also advising on more multivendor deals, as well as selective sourcing deals, rather than single-vendor deals. Clients are seeing value in best-of-breed solutions. As a consequence, it is putting more pressure on vendor management and governance.

The final area we are seeing a trend is the continued lack of appetite for BPO [business process outsourcing] generally in the outsourcing market and large deals in particular. Yes, it is happening, but not to the extent that the so-called market research firms have been predicting for some time. TPI sees a disconnect between service provider capability, which seems to be focused mainly on a "lift and shift" approach, compared to clients' needs, which go beyond that paradigm.

What are your thoughts on growth in back-office outsourcing? All of the market indicators show these services growing faster than any of the traditional outsourcing services like IT or contact center services. We are still not seeing the hypergrowth that has been predicted. It is certainly growing, but from a small base. So if you start off with five units and you double it, you got only 10, which is still not big compared to the IT market, which might be a billion. It probably is not growing as fast as some of the market analysts and researchers would lead you to believe.

Accenture, IBM and other organizations are providing a full range of services, even call center work. Do you think those organizations are suitable to provide such a wide range? I think so. The big firms are well established and have strong processes in place that are very transferable. Global companies are glad to have fewer vendors handling more functions.



Some of the other service providers have taken a very niche view. They say, "We don't want to do finance or HR or procurement; all we want to do is mortgage processing," as an example.

Also, the larger firms have been investing in global service delivery capability to extend their global footprint.

The U.S. has been the primary source of offshore outsourced work to this point. Who else is sending work abroad? It is predominantly the U.S. and Europe. These are still by far the markets that dominate in the amount of work that is being exported offshore.

Would you say India is still the premier destination for companies sending work offshore? India's leading the pack, but the landscape is changing quickly. Every month, there are new countries coming into play with new offerings. The landscape is getting wider, deeper and more competitive. This is certainly a good environment for the large global organization my firm works with.

Some people say India is becoming too expensive, especially for new entrants. What do you see? India and a lot of countries are facing escalation in costs. I don't think India is particularly unique in that. If you look at China, inflation in some areas is pretty substantial as well.

Although the cost benefit is still important, it is not just about cost anymore. Today, it has to have the benefit of scale attached to it as well. It is very difficult to take a piece of work which has five FTEs [full-time equivalents] and say we want to do it for 20% less. If it's got 500 FTEs, then you have potential, because you have economies of scale to re-engineer the way you do things. India has developed the know-how to re-engineer processes so savings can still come out. Countries that are newer to the outsourcing business are not yet at that stage.

It seems that no other countries besides India has been good at promoting itself as a BPO destination to global companies. What should they do? Differentiation seems to be the direction that most are taking. The big attraction offshore used to be lower cost. Today, that is not good enough because they themselves are facing increased inflation in labor, real estate and infrastructure cost. Even countries like India have to think about what else they can do to be successful.

Some countries have adapted a broad strategy like India, and others are adopting a narrow strategy like Singapore. Singapore is a high-cost country and is not looking to be a global BPO center. But it is trying to attract some of the multinationals to come and do high-end services in areas such as biotech. Differentiation will be the future.

Richard Mills is chairman of Chalmre Associates, a executive search and management consulting firm working in the emerging economies of Asia.